AR52

GLOBAL PERSPECTIVE
CLIENT FOCUS



1992 ANNUAL REPORT

Merrill Lynch

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FINANCIAL HIGHLIGHTS

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1992 *(52 Weeks)*	1991 *(52 Weeks)*	1990 *(52 Weeks)*	1989 *(52 Weeks)*	1988 *(53 Weeks)*
Operating Results					
Total Revenues	$ 13,428,291	$12,362,845	$11,150,816	$11,275,951	$ 9,694,980
Net Revenues	$ 8,593,024	$ 7,256,501	$ 5,786,916	$ 5,904,923	$ 5,926,777
Net Earnings (Loss)	$ 893,825	$ 696,117	$ 191,856	$ (213,385)	$ 463,182
Return on Average Assets	0.8%	0.8%	0.3%	(a)	0.8%
Return on Average Common Stockholders' Equity	22.0%	20.8%	5.8%	(a)	14.8%
Financial Position					
Total Assets	$107,024,173	$86,259,343	$68,129,527	$63,942,263	$64,402,655
Total Stockholders' Equity	$ 4,569,104	$ 3,818,088	$ 3,225,430	$ 3,151,343	$ 3,484,178
Tax Information					
Income Tax Expense *(b)*	$ 668,984	$ 321,301	$ 90,472	$ 61,863	$ 175,513
All Other (principally payroll and property taxes)	221,930	191,291	169,457	177,780	171,271
Total Taxes *(b)*	$ 890,914	$ 512,592	$ 259,929	$ 239,643	$ 346,784
Per Common Share					
Primary Earnings (Loss)	$ 7.84	$ 6.02	$ 1.59	$ (2.31)	$ 4.29
Fully Diluted Earnings (Loss)	$ 7.82	$ 5.90	$ 1.59	$ (2.31)	$ 4.21
Total Taxes *(b)*	$ 7.87	$ 4.55	$ 2.46	$ 2.35	$ 3.34
Dividends Paid	$ 1.15	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Book Value	$ 42.77	$ 35.76	$ 29.97	$ 28.52	$ 32.43
Common Shares Outstanding *(c)*	103,601,344	102,721,818	99,834,635	102,691,377	98,686,499

(a) As a result of the net loss in 1989, this ratio is not meaningful.

(b) Excludes $73,065 of income taxes in 1992 related to the cumulative effect of changes in accounting principles. Includes aggregate income taxes of $2,883 in 1989 and $10,152 in 1988 associated with the discontinued operations of Fine Homes International, L.P.

(c) Does not include 5,600,836, 6,818,410, 8,035,984 and 9,326,731 unallocated shares held in the Employee Stock Ownership Plan at year-end 1992, 1991, 1990 and 1989, respectively, which are not considered outstanding for accounting purposes.

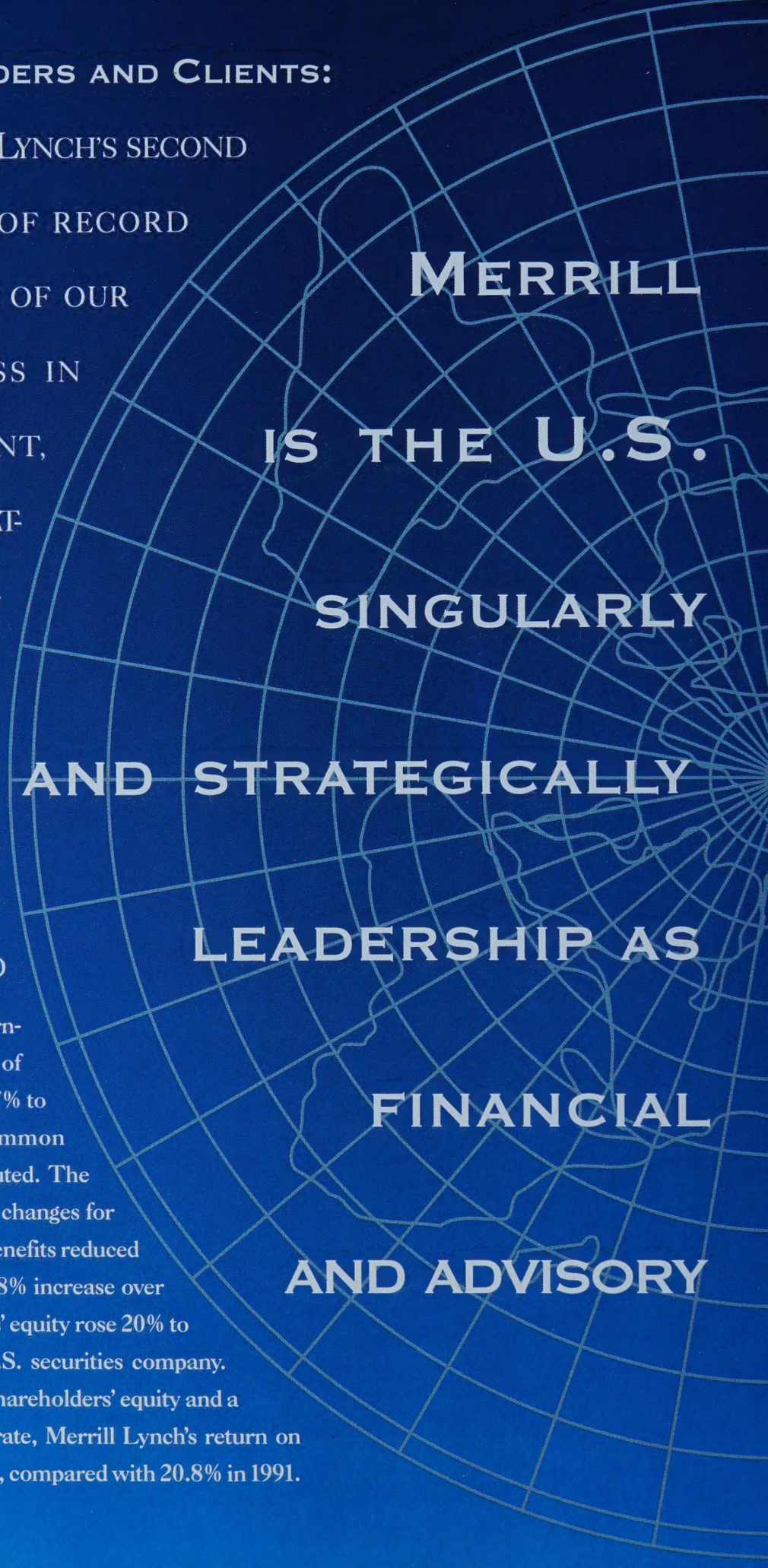
DESCRIPTION OF BUSINESS

Merrill Lynch & Co., Inc. is a holding company that, through its subsidiaries and affiliates, provides investment, financing, insurance and related services. Its principal subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), is one of the largest securities firms in the world. MLPF&S is a broker in securities, options contracts, commodity and financial futures contracts and selected insurance products, a dealer in options and in corporate and municipal securities, and an investment banking firm. Merrill Lynch Asset Management manages mutual funds and provides investment advisory services. Merrill Lynch Government Securities Inc. is a primary dealer in obligations issued by the U.S. Government or guaranteed or issued by Federal agencies. Other subsidiaries provide financial services outside the United States similar to those of MLPF&S and are engaged in such other activities as international banking, lending, and providing other investment and financing services. Insurance underwriting and marketing operations consist of the underwriting of life insurance and annuity products through insurance company subsidiaries of Merrill Lynch Insurance Group, Inc. and the sale of life insurance through Merrill Lynch Life Agency Inc. and other life insurance agencies associated with MLPF&S.

To Our Shareholders and Clients:

1992 was Merrill Lynch's second straight year of record profits, the result of our continued success in pursuing consistent, client-oriented strategies while controlling costs and risks.

Our net earnings to common shareholders were the highest ever achieved by a U.S. public securities firm. Earnings before the cumulative effect of two accounting changes were up 37% to $952.4 million, or $8.36 per common share primary and $8.34 fully diluted. The early adoption of these accounting changes for income taxes and postretirement benefits reduced net earnings to $893.8 million, a 28% increase over 1991's $696.1 million. Shareholders' equity rose 20% to $4.6 billion, the highest of any U.S. securities company. Despite substantial growth in our shareholders' equity and a 31% increase in our effective tax rate, Merrill Lynch's return on average common equity was 22.0%, compared with 20.8% in 1991.





Perhaps the purest indication of our earnings power in 1992 comes from examining our growth in *pretax* earnings—since our tax rate increased significantly from 1991. Before income taxes, and before the effect of the accounting changes, Merrill Lynch earned more than $1.6 billion in 1992—up more than 59% from our strong showing the previous year.

In addition, our success in controlling costs and risks was increasingly recognized by investors and analysts, as well as credit rating agencies. During the year, Merrill Lynch received further upgrades from major rating agencies, and our financing spreads were the lowest in many years.

Diversity of Revenues

Merrill Lynch achieved these results while continuing to pursue our strategies to build upon our leading global market positions, with virtually all of our business groups performing strongly.

Assets entrusted to us by our clients increased nearly 10% to $476 billion worldwide—far more than any competitor's. The majority of this increase was from assets new to the company. In 1992, an average of $134 million of new assets flowed into Merrill Lynch daily, reflecting the continued success of our global asset-gathering strategy.

The portion of these assets under fee-based management by Merrill Lynch Asset Management rose 12% to $138 billion, and several MLAM funds were among the top-performing mutual funds in the industry.

In a year when global underwriting topped $1 trillion for the first time,

(Letter Continues →)

GLOBAL PERSPECTIVE
CLIENT FOCUS

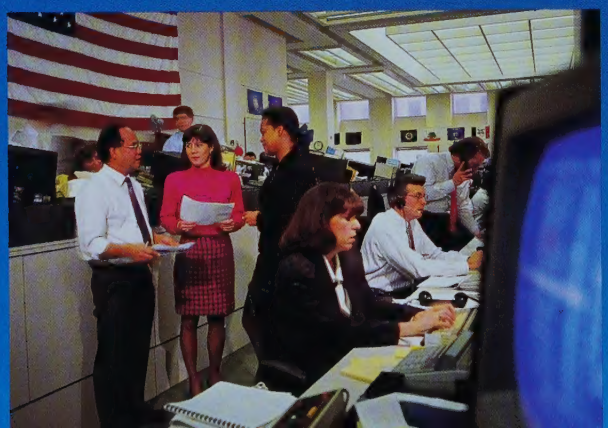
MERRILL LYNCH CONCENTRATES ITS RESOURCES ON ANTICIPATING AND INTERPRETING WORLD TRENDS, THEN ACTING UPON THIS GLOBAL PERSPECTIVE FOR OUR CLIENTS' BENEFIT. CLIENT FOCUS IS THE DRIVING FORCE BEHIND ALL OUR STRATEGIES.

WE BELIEVE THAT WHAT SETS MERRILL LYNCH APART IS OUR COMMITMENT TO SOLVING CLIENT PROBLEMS ON A GLOBAL BASIS–WITH THOROUGH UNDERSTANDING OF EACH CLIENT'S NEEDS AND OBJECTIVES, KNOWLEDGE OF WORLDWIDE AND domestic markets and industries, a broad array of superior products and services, powerful execution and distribution capabilities, and our long-standing reputation for integrity.

We make this a global commitment not because we wish to compete with established domestic firms in every country, but rather because a global view is so often essential to fully serving the critical needs of our individual, institutional and sovereign clients, no matter where they are located.

Our global perspective enables issuers to access capital efficiently and competitively.

Our global perspective helps individual and institutional investors find optimal strategies and opportune investments.



BY STRESSING MUTUAL RESPECT, ACCEPTANCE AND COOPERATION, WE FORGE AN EFFECTIVE TEAM WORKING ON THE CLIENT'S BEHALF.



Our global perspective assists issuers and investors alike in maximizing returns and managing risks with state-of-the-art derivative products—synthetic securities for limiting risk and enhancing yield.

Merrill Lynch has been doing business internationally since before World War One. However, in the modern marketplace capital no longer merely flows from one region to another; it circles the globe at the speed of light, responding to constantly changing needs and opportunities.

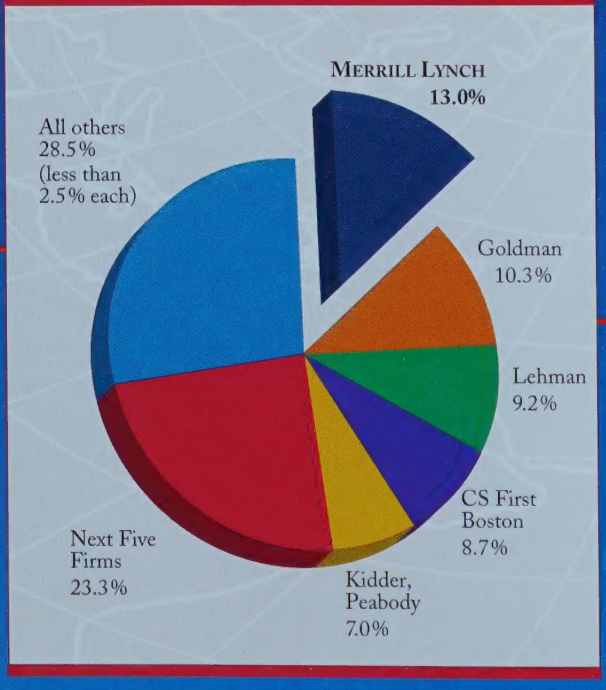
This perpetual state of change in the global marketplace frequently causes change in our clients' needs, so that only by anticipating and fully understanding the implications of global trends can we give the client superior advice and counsel.

Our clients—whether individual or institutional investors, large corporations or sovereign governments in search of the most efficient funding—no longer can confine their horizons to domestic markets alone. The best solutions to their specific needs often lie elsewhere.

One key to all our capabilities is Merrill Lynch's superior research, which helps investing clients maximize their opportunities. We view industries from a multinational perspective, taking into account domestic and regional market factors, and such variables as foreign exchange and cross-border interest rate variance. This perspec-

TOP UNDERWRITERS OF DEBT AND EQUITIES WORLDWIDE IN 1992

Source: Securities Data Corp.



tive allows us to break through boundaries to assessing and accessing opportunities around the world.

With economic growth in regions like the Pacific Rim and Latin America expected to outpace that of the United States and Europe in the decade ahead, our investing clients are seeking advice and guidance in diversifying their portfolios overseas. In 1992, Merrill Lynch clients nearly tripled the amount of their assets invested abroad, and by the year 2000 they are expected to at least triple this amount once again.

For individuals in particular, sorting through international investment opportunities is a difficult and complex challenge, but our 11,700 Merrill Lynch Financial Consultants worldwide assist them with guidance, counsel and execution, drawing on all our resources to fashion solutions to client needs.

ASSETS IN CLIENT ACCOUNTS WORLDWIDE *(Assets in Billions as of Year-End)*

Source: Merrill Lynch Market Planning





For issuer clients, the strength and independence of our global research plays an equally vital role in targeting opportunities and establishing the analytical credibility that is essential for successful global offerings.

And for corporate clients seeking to make strategic acquisitions or divest part of their businesses, our global perspective and advisory skills are brought to bear to support their objectives.



In December, the prestigious *International Financing Review* of London named Merrill Lynch its 1992 "Bank of the Year," marking the first time this award has been given to a securities company. This distinction is recognition that, as barriers to competition in financial services are continuing to fall around the world, enormous new opportunities are available to our clients and our company.

The extent of these opportunities is evident not only in the many innovative global structures we design and implement for clients, but also in the service we are able to provide during difficult periods, such as last fall's European currency market crisis.

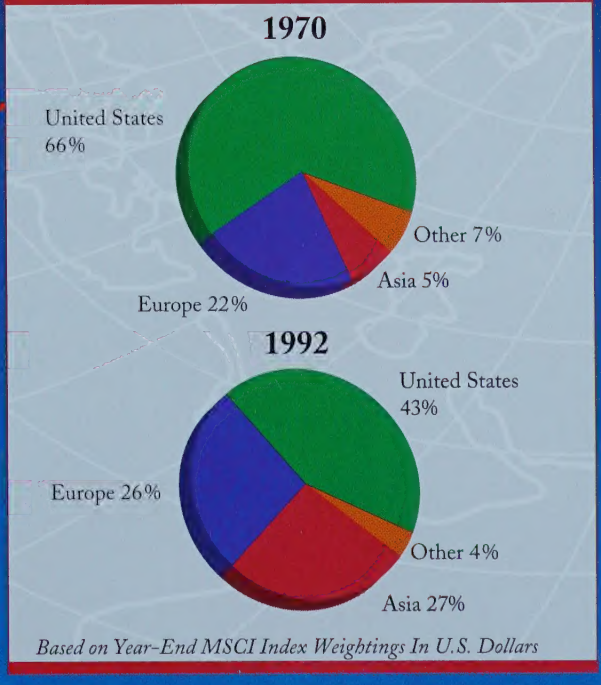
This unusually turbulent period and the level of assistance we were able to give demonstrated once again that our presence in the global marketplace is a distinct advantage for our clients.

Merrill Lynch's mission remains constant: to be each client's trusted advisor in a complex and changing world. Global perspective is one side of the equation; client focus is the other. Our company is firmly committed to excelling in both.

TRENDS IN GLOBAL MARKETS

Market Capitalization

Source: Merrill Lynch Global Investment Strategy



Based on Year-End MSCI Index Weightings In U.S. Dollars

we were the leading underwriter for the fifth consecutive year in the U.S. and the fourth consecutive year worldwide. We served as lead underwriter for $151 billion in new debt and equity, shattering our record from the previous year by a margin of $40 billion.

Importantly, our continuing 13% lead in underwriting market share is not coming at the expense of profitability. According to published industry data, while our global underwriting volume rose 36% in 1992, our global underwriting fees rose by 65%. Similarly, in the U.S. market our underwriting volume rose 39%, while our underwriting fees rose 68%.

We continue to believe that the most effective and most profitable way to do business is by emphasizing long-term relationships with all our clients, both institutional and individual. We want all our employees to view themselves as "relationship managers," part of a team working to solve our clients' problems.

In addition, we continue to feel an important obligation to be a leading advocate for public policies that address the long-term well-being of the United States and world economies–policies to promote saving, investment and economic growth. Merrill Lynch will remain a strong public supporter in the U.S. of revitalized Individual Retirement Accounts, reduced taxation of long-term capital gains, and other initiatives that promote growth while enhancing the ability of individuals to provide for their own futures.

Merrill Lynch Principles

Client focus, respect for the individual, teamwork and responsible citizenship: These are the guiding principles of our company–along with preserving our reputation for integrity, the Merrill Lynch "tradition of trust." Beginning on page 26 of this report, we explain some of the corporate governance methods Merrill Lynch has

MERRILL LYNCH & CO., INC. EXECUTIVE MANAGEMENT COMMITTEE

Seated (left to right):

BARRY S. FRIEDBERG

STEPHEN L. HAMMERMAN

JOHN L. STEFFENS

WINTHROP H. SMITH, JR.

ARTHUR ZEIKEL

Standing (left to right):

DANIEL T. NAPOLI

HERBERT M. ALLISON, JR.

EDWARD L. GOLDBERG

DAVID H. KOMANSKY

THOMAS H. PATRICK

ROGER M. VASEY

JEROME P. KENNEY



developed to reinforce these values. These systems are designed to ensure that Merrill Lynch continues working to the benefit of all those with a stake in our company's success–clients, shareholders and employees.

We also continue pursuing a policy of diversity in our workforce. This is critical to ensuring that we remain an employer of choice and one able to serve our clients most effectively.

In closing, we are mindful that market conditions in 1993 will continue to change, as they always have. Therefore, we are determined to continue carefully managing our costs and our risks while, at the same time, investing in the superior technology and services to support our core businesses with outstanding potential.

Our goal will always be to enhance our role as our clients' trusted advisor. We remain confident that we have the strategies, the financial strength, the reputation and the people to do so.



Daniel P. Tully
President and Chief Executive Officer

William A. Schreyer
Chairman of the Board

From Wall Street to Main Street to the World

On June 28, 1993, I will retire from Merrill Lynch after 45 exciting and fulfilling years. I will treasure innumerable memories, as well as a sense of immense personal pride in what Merrill Lynch has become.

In 1948, when I was fortunate enough to join Merrill Lynch as a management trainee, our company was still being run by its founders, Charles E. Merrill and Winthrop H. Smith. Charlie Merrill had the novel idea that a Wall Street firm should exist not for the benefit of a privileged few, but rather to give every person a chance to reap the benefits of our capital markets system.

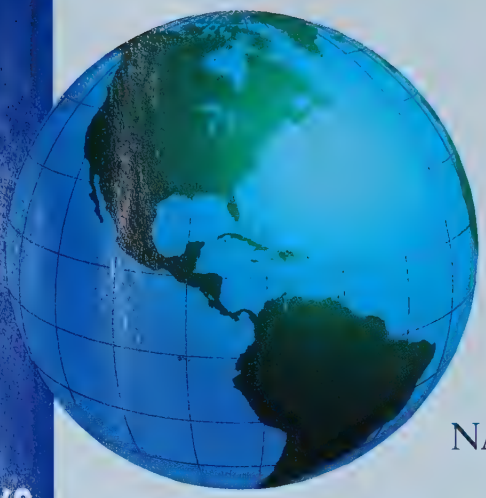
Because of Charlie Merrill's insistence on integrity and on placing clients' interests first, he became known as the man who brought Wall Street to Main Street. Were Mr. Merrill alive today, he would be thrilled, as I am, to see Merrill Lynch play a leading role in bringing Wall Street to the world.

Our company has changed a great deal in the last 45 years. We are no longer exclusively focused upon individual clients, nor is our business focused exclusively on the United States. We have built uniquely powerful franchises with both individual and institutional clients, and we are among the few financial services companies whose presence is truly global.

More important, however, are the ways in which our company has *not* changed. We remain guided by Mr. Merrill's imperative that the clients' interests come first, and we still regard our reputation for integrity–our "tradition of trust"–as our most important corporate asset. These basic principles remain at the core of Merrill Lynch's success.

The future of Merrill Lynch is now in the exceptionally capable hands of Dan Tully, an executive of broad strategic vision and an outstanding leader, along with our executive management team. From my perspective, our company's best years are still ahead.

I will always be grateful to you–our shareholders, clients and employees–for allowing me to be a part of this great and ongoing enterprise.



IN THE UNITED STATES THE ECONOMIC RECOVERY IS LEADING THE WAY OUT OF THE GLOBAL RECESSION AMONG DEVELOPED NATIONS. THE U.S. HAS THE MOST PRODUCTIVE ECONOMY IN THE WORLD AND REMAINS THE ACKNOWLEDGED LEADER IN TECHNOLOGICAL AND MARKETING INNOVATION. MANY OF THE LARGEST U.S. COMPANIES HAVE RESTRUCTURED AND REFOCUSED THEIR ENERGIES ON AREAS OF CORE COMPE-

tence and maximum potential. They are now beginning to leverage these strategic advantages globally by exporting products and services and expanding operations into other markets. Merrill Lynch is ideally qualified to help.

At the same time, Americans are realizing that longer life expectancy and the rapidly increasing cost of health care, along with other factors, will combine to make a comfortable retirement more difficult than ever. As a result, they are beginning to feel a pressing need to save and invest for the future.

Americans' personal savings rate stands at the historically low level of 4.6%. And a new study establishing the Merrill Lynch Baby Boom Retirement Index℠ shows that the oldest members of the 76 million Baby Boom generation are saving at just 34% of the minimum rate needed to provide them with a secure retirement at age 65. However, our annual Retirement Planning survey reveals a gradual increase in public awareness about this personal savings deficit.

INDIVIDUAL INVESTOR AND SMALL BUSINESS ACTIVITIES

For more than a half century, Merrill Lynch has been a leader in helping Americans plan their financial futures, in providing the tools to build, manage and preserve wealth and in acting as a trusted financial advisor.

Our Financial Consultants (FCs) build long-term relationships through advice and guidance and bring together all of our company's powerful resources—superior research, execution and timely investment products—to help individual and small business clients realize their important financial goals.

The more than $476 billion entrusted to us by clients reflects the extent to which clients value our guidance and financial strength along with our reputation for integrity in the marketplace—the Merrill Lynch "tradition of trust."

Our commitment to clients begins with giving our FCs the most extensive training available anywhere. Indeed, Merrill Lynch has set the industry standard for

training since 1945, when we established the first school for FCs. In 1992, nearly half of our FCs, in all phases of their careers, participated in our training programs in order to better serve clients.

Financial Planning

We believe a relationship between the FC and the client should begin with a comprehensive financial plan, and we are committed to becoming a market leader in offering financial planning services. Through Financial Foundation®, our state-of-the-art financial planning service, clients receive personalized plans analyzing their financial needs and goals and offering investment alternatives, taking into account their tolerance for risk. Our FCs then help the client to implement the plan.

The FC also can draw on a full range of Merrill Lynch specialists across the country in such areas as estate planning, insurance, trusts, mortgages and credit to provide highly customized advice and service.

We are a leader in providing small and mid-sized businesses with a comprehensive range of innovative products and services that help promote growth and profitability throughout the business life cycle. Our FCs can call on a superior team of professionals dedicated to advising businesses in such areas as cash management, financing, investment and retirement planning, consulting and advisory services, and business succession planning.

In 1992, more than 100,000 small and mid-sized businesses entrusted a record $90 billion in assets to us. This includes assets of $30 billion in 103,853 Working Capital Management℠ accounts (WCMA®)–the largest concentration of business cash management accounts and assets in any U.S. financial institution. Financing commitments for these businesses totalled $810 million.





USING OUR PROPRIETARY FINANCIAL PLANNING SERVICE, FINANCIAL FOUNDATION®, FINANCIAL CONSULTANTS HELP CLIENTS DEVELOP LONG-TERM FINANCIAL PLANS SUITED TO THEIR PERSONAL NEEDS AND TOLERANCE FOR RISK.

We also advise businesses on retirement benefits for owners and employees. Merrill Lynch currently provides financial services to accounts of more than 75,000 plans with more than $35 billion in assets.

As business owners grow older, they become concerned with planning for the disposition of their businesses. Our FCs, supported by our business specialists, can help them develop and implement a formal succession plan, with our business brokerage, valuation, employee stock ownership plan and related services.

Maximizing Global Opportunities

With economies in such developing regions as Latin America and the Pacific Rim expected to outpace more developed regions, our FCs have made global investment opportunities a major theme in advising clients. In 1992, the portion of our clients' assets invested internationally nearly tripled to 7.5%. By the end of the decade, we expect it to nearly triple again–to 20%.

In order to maximize their opportunities in today's complex and volatile global marketplace, Merrill Lynch FCs are helping clients select professional asset management services, beginning with the mutual funds and private account services of Merrill Lynch Asset Management (MLAM).

Assets under management by MLAM rose 12% to $138 billion at year-end, and several MLAM funds won top ratings from Morningstar, Inc. for return in relation to risk. According to Lipper Analytical Services, Inc., Merrill Lynch Pacific Fund outperformed all other rated mutual funds during the 10-year period ending September 30, 1992.

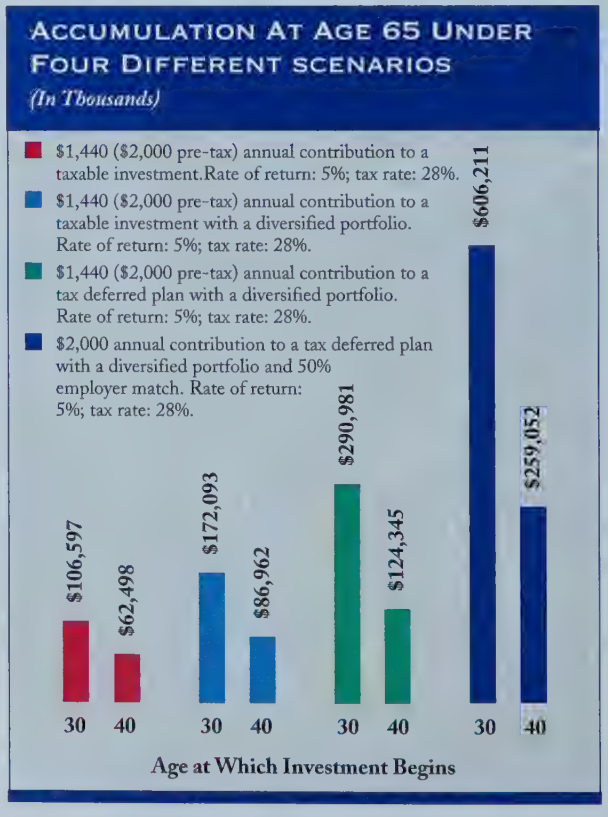
Merrill Lynch FCs also help clients select and monitor professional investment managers through the Merrill Lynch Consults® service. In 1992, assets under management through the Consults service more than doubled to $12.2 billion.

Because our clients have a strong interest in tax-free municipal bonds to help minimize the impact of rising taxes, we offer a broad selection of municipals and diversified funds. For instance, during 1992 MLAM introduced 17 closed-end leveraged municipal bond funds.

We offer our clients a comprehensive array of other financial services in order to help them fulfill their goals. Recognizing that managing credit can be as important as managing investments, we have significantly expanded our range of mortgage products, including the innovative Mortgage 100℠ and Parent Power℠ programs introduced in 1992, which offer qualified clients 100% real estate financing, using investment assets as collateral.

Helping Clients Preserve Their Estates

For the growing number of affluent individuals concerned with protecting their families' futures, our FCs work together with highly skilled specialists in estate and





MERRILL LYNCH IS A LEADING PROVIDER OF EMPLOYER-SPONSORED SAVINGS PROGRAMS, SUCH AS 401(K) AND OTHER DEFINED CONTRIBUTION PLANS, WHERE EMPLOYEE EDUCATION IS CRITICAL.

business succession planning, insurance, trusts and philanthropy to develop effective strategies for preserving and enhancing wealth.

Through Merrill Lynch Trust Company and its affiliates, we provide a full range of personal trust services. And Merrill Lynch Insurance Group Inc., through its insurance company subsidiaries, offers insurance products designed to protect our clients' assets and provide retirement income over the long term. This includes our own variable annuity and life insurance policies, with assets managed by MLAM.

Investor Education: A Merrill Lynch Tradition

From the very beginning, a hallmark of our company has been our commitment to understanding client needs and then educating clients about investment solutions. We continue to lead in this area, with 300,000 people attending our FCs' seminars last year alone.

Through the FC, individual clients also have access to Merrill Lynch's superior global research. During the year, we provided individual clients with special reports on global investing, asset allocation and equity investing. On November 4, the day following the Presidential election, we distributed an in-depth report on the likely impact of the new administration on the financial markets and the implications for individual investors.

We also continue to feel a responsibility to convey the importance of personal saving and retirement planning to the public at large. Our recently published financial planning book–*Grow Rich Slowly: The Merrill Lynch Guide to Retirement Planning*–expresses a philosophy long espoused by our company. We encourage both clients and others to ignore short-term market fads and to work instead with a trusted advisor to achieve a disciplined, long-term investment plan based on individual needs and market opportunities.

RECOGNIZED EXPERTS LIKE DR. ZBIGNIEW BRZEZINSKI PROVIDE OUR FINANCIAL CONSULTANTS WITH A GLOBAL PERSPECTIVE THAT HELPS THEM IDENTIFY OPPORTUNITIES FOR THEIR CLIENTS' BENEFIT.



INSTITUTIONAL AND CORPORATE ACTIVITIES

As the leading global underwriter in debt and equity, a leader in providing research, execution, and strategic advice, as well as derivative debt and equity structures, Merrill Lynch is ideally positioned to help U.S. and Canadian corporate and institutional clients meet all of their financing and strategic objectives.

Equity and Equity-Linked Offerings

We are strongly committed to building and enhancing long-term relationships with our issuing clients, as reflected in our clients' high level of loyalty. In 1992, a record year for underwriting, over 60% of the equity transactions led by Merrill Lynch (excluding initial public offerings, or IPOs) were on behalf of clients with whom we had significant pre-existing ties.

Our global strengths also give our U.S. and Canadian clients enormous advantages in international markets. Our U.K. and European market expertise enabled us to help Chicago's Waste Management, Inc., a long-time client, substantially increase its business and financial opportunities abroad with a $770 million global IPO for Waste Management International plc.

Merrill Lynch was the number one lead manager for IPOs in the U.S. and worldwide, with offerings for such clients as Callaway Golf Company, Maybelline, Inc., Snapple Beverage and Sunbeam-Oster Co., Inc.

Merrill Lynch also remained a leader in the innovative field of equity-linked offerings, especially in the zero-coupon convertible market, where our Liquid Yield Option℠ Notes (LYONs®) have a 79% market share. The largest LYONs transaction of the year was a $1.5 billion (face value) issue for Time Warner Inc., exchangeable into shares of Hasbro, Inc.

We also lead managed the largest convertible preferred new issue of the year, General Motors Corporation's $1.5 billion Series C convertible preferred issue.

Fixed-Income Issuance

In fixed-income securities Merrill Lynch built on its continuing dominance–particularly in high-grade, high-yield and preferred stock new issuance–by helping our clients issuing in the U.S. with a number of the year's largest and most successful financings, including Chrysler Financial Corporation's $300 million in remarketed and reset notes and Time Warner Entertainment Company, L.P.'s $1.2 billion in private placements.

Merrill Lynch's powerful U.S. and international distribution network also was a critical element in placing clients' securities overseas. Among the most significant of these transactions were two successive global offerings for the International Bank for Reconstruction and Development (World Bank) and Canadian-dollar global offerings for Ontario Hydro and Hydro-Québec.

Indeed, 1992 was a record year for Merrill Lynch

MERRILL LYNCH CONTINUES TO BE THE LEADER IN RAISING CAPITAL FOR FINANCIAL INSTITUTIONS WORLDWIDE.





OUR SECURITIES ANALYSTS VIEW INDUSTRIES FROM A MULTINATIONAL PERSPECTIVE, BREAKING DOWN BOUNDARIES TO ASSESS AND ACCESS GLOBAL OPPORTUNITIES.

across all debt markets, with our company remaining a leader in medium-term notes, U.S. commercial paper, asset-backed securities, municipal issues and mortgage-backed securities. We also maintained our leading position in government trading, executing a record volume of transactions.

Merrill Lynch continued to be the leader in raising capital for financial institutions worldwide. Domestically, we also were number one in raising capital for banks and in funds raised for the insurance industry. For example, we raised $1.5 billion in four preferred stock offerings for long-term client BankAmerica Corporation, and $650 million in securities for The Travelers Corporation.

Swaps and Derivatives

Swaps and other derivative products are instruments with which we tailor solutions to the problems of both issuing and investing clients, tying together advantageous elements from all the different global markets.

Merrill Lynch is a leader in developing, issuing and trading equity- and debt-linked derivative products, including futures, options, currency- and commodity-linked products, and swaps. For example, in its first full year of operation, our triple-A-rated swaps subsidiary, Merrill Lynch Derivative Products, Inc., gained an industrywide reputation for innovation and substantially broadened our client base for swaps.

Strategic Advisory Services

Merrill Lynch's global reach, our strengths in all aspects of the capital markets, and our commitment to marshaling all of our resources to serve the client make our company ideally suited to advise



AT THE REQUEST OF THE ST. PETERSBURG STOCK EXCHANGE, WE HELD A SIX WEEK TRAINING COURSE IN ALL ASPECTS OF THE CAPITAL MARKETS, FOR PROFESSIONALS FROM FORMER SOVIET UNION COUNTRIES.

on mergers and acquisitions, and other strategic transactions.

As a leading investment banking firm in M&A for the insurance industry, Merrill Lynch advised investment firm Kohlberg Kravis Roberts & Co., L.P. and arranged $450 million in senior subordinated debt to facilitate the largest insurance LBO ever– the $1.4 billion acquisition of the American Re-Insurance Company. Within four months, we successfully lead managed American Re Corporation's subsequent IPO.

We advised Blockbuster Entertainment Corporation in its acquisition of the U.K. video rental chain Cityvision plc, which involved an innovative offering of U.S.-registered stock for a foreign acquisition. And we also advised GTE Corporation in the divestiture of its worldwide Sylvania lighting business.

Institutional Investor Services

Merrill Lynch is also committed to building long-term relationships with our institutional investor clients, who benefit from our global reach, superior global research, trading and derivatives expertise. To better serve them, we are equipping our worldwide institutional equity sales force with state-of-the-art analytic and information management tools. These tools enhance our ability to work with our clients to understand their needs and customize solutions to better serve them.

Institutional investors also benefit from our leadership in global underwriting, as our company continues to offer new investment opportunities around the world. For example, Merrill Lynch brought institutional investor clients a highly popular $275 million Rule 144-A ADR placement for Swiss pharmaceutical company Roche Holding Ltd. And as the number one underwriter of debt offerings in the U.S. by non-U.S. issuers, we brought offerings to U.S. investors from such diverse issuers as the Bank of Scotland and The Korea Development Bank.

401(k) Plans and Other Corporate Benefits

Our company also is a leading provider of employer-sponsored savings programs, such as 401(k) and other defined contribution plans, which represent one of the fastest-growing asset pools in the U.S. In 1992, we were selected to assist E.I. du Pont de Nemours and Company with its 401(k) plan, covering more than 100,000 employees, in addition to servicing its Stock Option and Incentive Compensation Plan.

With our innovative investment strategies, advanced record-keeping systems and comprehensive employee education capabilities, Merrill Lynch is perfectly suited to assist corporations in implementing service-oriented employee benefit programs that help individuals save for their future and a secure retirement.



MEMBERS OF THE CONVERTIBLE SALES AND TRADING TEAM COLLABORATE ON THE $1.5 BILLION TIME WARNER INC. LYONS TRANSACTION.

MERRILL LYNCH IS PLAYING A MAJOR ROLE IN HELPING SOVEREIGN GOVERNMENTS OF LATIN AMERICA TO PRIVATIZE STATE-OWNED INDUSTRIES, INCLUDING TELECOM ARGENTINA, TELEFÓNICA DE ARGENTINA, S.A. AND TELEBRÁS, BRAZIL.



Canada

We also were active in serving Canadian corporate and provincial clients. Merrill Lynch remained the No. 1 lead manager of international debt and equity offerings by Canadian issuers in 1992, with a 24% market share.

Using our global distribution capabilities, we helped place two Canadian-dollar global offerings for Ontario Hydro and Hydro-Québec.

We also ranked first in Yankee debt offerings by Canadian issuers. We raised over $1 billion in capital for Rogers Communications Inc. and its companies, Rogers Cantel Mobile Inc. and Rogers Cablesystems Limited.

In addition, we were active in raising capital on behalf of the provinces of New Brunswick, Ontario and Québec.

Emerging Markets in The Americas

As Mexico, Argentina, Brazil and other Latin American nations embrace free market principles and implement debt reduction plans, the region is becoming increasingly attractive to global investors.

Merrill Lynch is playing a major role in helping these governments to access the largest capital markets and to privatize their state-owned assets. For example, we were international coordinator for Telecom Argentina's highly successful $1.2 billion IPO, which employed an innovative auction structure. For long-term clients Telebrás and Sanbra, Merrill Lynch lead managed two significant Eurobond issues.

In addition, our company was a leader in helping emerging market countries shift from traditional bank to capital markets financing through innovative derivative products.

Through our Private Bankers and FCs in our International Private Banking Group, we provide high-net-worth clients in Latin America with a full spectrum of multimarket, multicurrency investment opportunities, discretionary asset management and private banking capabilities, including the services of our Swiss bank and international trust companies.



THE EUROPEAN ECONOMY IS UNDERGOING A MAJOR TRANSITION. TRADE BARRIERS ARE STEADILY ERODING, REGULATIONS ARE BEING STANDARDIZED, AND GOVERNMENTS FROM EAST TO WEST ARE ABANDONING ATTEMPTS TO CONTROL MAJOR INDUSTRIES IN FAVOR OF PRIVATE SECTOR OWNERSHIP THROUGH THE CAPITAL MARKETS. AS THE REGION STARTS TO RECOVER FROM ITS RECESSION, CROSS-BORDER INDUSTRY competition is likely to intensify, resulting in increased levels of restructuring and consolidation. As the leading global underwriter and a leader in strategic advisory services, Merrill Lynch is helping European corporations, financial institutions, sovereign governments and affiliates to raise capital globally and achieve their strategic goals. In addition, we continue to serve our European and Middle Eastern individual clients with superior private banking and other financial services.

Global Access to Capital

One quality that distinguishes our work internationally is our focus on analyzing client needs and finding the best solutions, often innovative.

For instance, we helped Anglo-American pharmaceutical company SmithKline Beecham plc achieve an unusually low rate of funding with a C$125 million Euro-issue.

We lead managed a $770 million global IPO for Waste Management International plc with listings in both London and New York, in order to help its Chicago-based parent company create an international identity for its activities outside North America. In addition, our $275 million Rule 144-A ADR placement for Switzerland's Roche Holding Ltd. enabled that company to diversify investor ownership of the company and gain access to the U.S. market.

One of the largest global transactions of the year was a $1.55 billion debt and equity recapitalization for the multinational media company News Corp. Merrill Lynch was global coordinator for the $697 million equity portion and lead manager of the U.S., U.K. and multinational portions of the recapitalization. We also were co-lead managers of the equity issue in Australia and lead manager of the $850 million bond offering.

Using our strong market position in equity-linked securities to reach a wide investor base with favorable pricing, Merrill Lynch helped Sweden's Aktiebolaget SKF, the world's leading ball bearings manufacturer, refinance its short-term debt with the first Liquid Yield Option Note issued by a European company and the first non-dollar denominated LYONs ever.

Among a number of financings that we led for Société Nationale Elf Aquitaine was a perpetual fixed-rate preference share offering in early 1993 for its subsidiary, Elf Overseas Limited, the first issue of its kind for a major French corporation.

We assisted the Republic of Finland in launching the first-ever sovereign global bond, acting as coordinator for an issue that doubled in size from $1 billion to $2 billion, due to strong investor interest. In the beginning of 1993 another $1 billion was added to the issue, making it one of the largest sovereign debt issues ever.

Among other debt issues, Merrill Lynch lead managed a $250 million issue for the Bank of Greece and a DM 300 million MTN for Finnish Export Credit.

We also remained the leader in raising capital globally for financial institutions worldwide.

In 1992, Merrill Lynch brought subordinated debt issues to market in the U.S. for banks based in Sweden, France and Germany, as well as a $300 million Rule 144A debt private placement for the Bank of Scotland. A $400 million offering for Royal Bank of Scotland was the largest ever preferred stock issue for a non-U.S. bank.

In addition, Merrill Lynch lead managed a $120 million ADR offering for Banco Comercial Português, the first Portuguese company to list on the New York Stock Exchange.

Strategic Advisory Services

As U.K. and European companies plan increas-





WE HELPED OUR LONG-TERM CLIENT, WASTE MANAGEMENT, INC., INCREASE ITS BUSINESS ABROAD WITH A $770 MILLION GLOBAL IPO FOR ITS INTERNATIONAL SUBSIDIARY.

ing numbers of strategic acquisitions and divestitures, they are looking to Merrill Lynch as a global leader in investment banking for advice and guidance, as was the case for Hoesch AG in its $4.5 billion merger with Fried. Krupp AG.

Merrill Lynch is helping Eastern European governments with their critical privatization programs. In Hungary, our company acted as advisor for five of the government's divestitures through the end of 1992– including the sale of the four tobacco production companies to two U.S. firms and a British and a German company, one of the few sector privatizations in Eastern Europe to be successful. We also advised Hungary in the sale of its vegetable oil business to a consortium of two of the largest European food companies.

As the privatization trend continues throughout Western Europe, Italy has begun work on a program to privatize industries and institutions throughout the country. The government has named Merrill Lynch as its advisor on the sale of Credito Italiano, which is expected to be the country's first major financial institution to be privatized.

Our company also was retained to sell UTAG, a former East German water and sewage engineering company. We conducted an auction, which resulted in the sale of the company to Thames Water plc of the U.K.

Diverse Global Services

In a region where regulations, funding requirements and currency risk must be constantly re-evaluated, Merrill Lynch is a leader in helping corporations and sovereign entities hedge their positions and identify new opportunities.

Our global foreign exchange team provided clients with superior service during last fall's EMS currency crisis, continuing to give clients liquidity and prices on a 24-hour basis. During the same period, despite the difficult environment, we joint lead-managed a successful $1.5 billion bond issue for the Kingdom of Spain.

At the end of its first full year, Merrill Lynch Derivative Products, Inc., our triple-A-rated subsidiary, had negotiated more than 730 transactions with more than 120 counterparties involving a notional principal of $25.9 billion.

Our company also maintained its leadership in the global medium-term note (MTN) market. We were alone in anticipating deregulation in Germany in July. Therefore, Merrill Lynch Bank AG, our German company was able to arrange more Deutsche Mark-



CLIENTS ATTENDING SEMINARS IN MERRILL LYNCH OFFICES WORLDWIDE OFTEN PARTICIPATE IN BRIEFINGS BY OUR ECONOMISTS AND ANALYSTS VIA SATELLITE.



AWARD

In recognition of outstanding achievement and success in the category of

Bank of the Year

International Financing Review presents the 1992 Review of the Year Award to

Merrill Lynch

on the 20th day of January 1993

international FINANCING review

Editor-in-chief

INTERNATIONAL FINANCING REVIEW NAMED MERRILL LYNCH ITS 1992 "BANK OF THE YEAR," CITING OUR FRANCHISES IN GLOBAL INSTITUTIONAL AND INDIVIDUAL MARKETS.

denominated Euro MTN dealerships to date than any other financial institution.

Merrill Lynch also continued to build its franchise in the Middle East with an international initial public offering that was the largest ever for an Israeli company. This $113 million offering was on behalf of Tadiran Limited, a diversified telecommunications equipment and defense electronics firm, Israel's largest private company.

Private Banking in Europe and the Middle East

Our International Private Banking Group brings high-net-worth individuals a full range of private banking services, global investment opportunities and superior advice and guidance.

To better serve our clients in the region, we have been converting many of our international brokerage offices into private bank branches. In 1992, Merrill Lynch's U.K. brokerage offices became branches of Merrill Lynch International Bank Limited.

Our International Bank also signed an agreement with Lloyd's of London to enable Lloyd's "Names"– individuals who participate in underwriting syndicates– to hold their Lloyd's deposits in the form of U.S. securities in custody at the bank.

Merrill Lynch International Bank's loan and letter of credit volume increased by 106% to a record $3.3 billion. Merrill Lynch Bank (Suisse) S.A.'s assets rose 37% to $2.8 billion, while Merrill Lynch International Trust assets increased 70% to $2.2 billion.



WE HELPED THE REPUBLIC OF FINLAND LAUNCH THE FIRST-EVER SOVEREIGN GLOBAL BOND.



THE ASIA-PACIFIC REGION HAS THE FASTEST ECONOMIC GROWTH IN THE WORLD. RAPIDLY DEVELOPING ECONOMIES LIKE CHINA, INDONESIA, MALAYSIA AND THAILAND ARE ACTIVELY SEEKING FOREIGN INVESTMENT, ESPECIALLY JOINT VENTURES, TO GAIN ACCESS TO MORE ADVANCED TECHNOLOGY, MARKETING AND MANAGEMENT TECHNIQUES. IN THE REGION'S NEWLY INDUSTRIALIZED ECONOMIES LIKE HONG KONG, KOREA, Singapore and Taiwan, the number of high-net-worth individuals also is growing rapidly, as governments encourage entrepreneurship and the region's growing middle class begins to invest in a burgeoning pension system. Having been active in the region for more than 45 years, Merrill Lynch has become a trusted advisor to and an integral part of the Asian financial community.

Japan

For the sixth consecutive year, Merrill Lynch was named the favorite foreign securities firm in a survey of Japanese corporations conducted by *Nihon Keizai Shimbun*. Much of our business in Japan is focused on areas of particular strength, such as swaps, derivatives and specialized financing tools, as well as our powerful global distribution.

We were co-lead manager for the largest corporate Eurobond issue to date, a $1 billion offering by Toyota Motor Corporation. Both Daiwa Bank and Fuji Bank also turned to Merrill Lynch for help in raising capital with variable rate note issues.

In 1992, we opened a Tokyo branch of our Germany-based Merrill Lynch Bank AG to significantly expand foreign exchange, swaps and options business. And in early 1993, our company announced further plans to reposition its role in Japan, by shifting our focus to emphasize the institutional marketplace.

Asia's High-Growth Economies

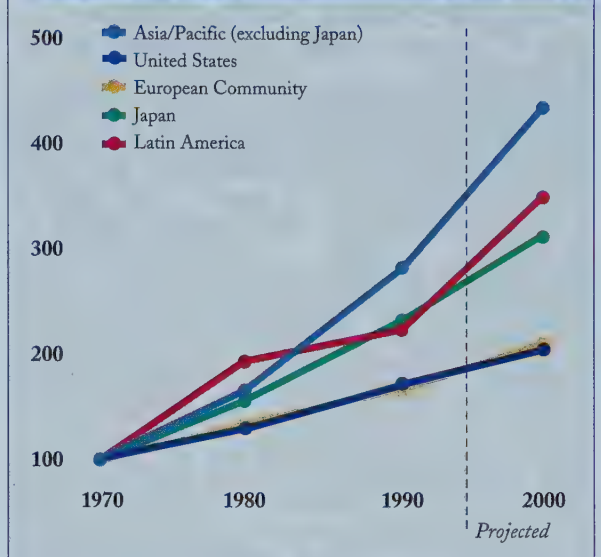
In Asia's fastest-growing economies, our company continued to deepen relationships with sovereign and corporate clients, private clients and foreign offshore investors.

Building on our many years of work with Korean issuers, Merrill Lynch was lead manager for a $500 million Yankee bond issue for The Korea Development Bank. It was the largest such issue ever by an Asian borrower outside of Japan. We also lead managed a subsequent $300 million issue for KDB.

In addition, our company lead managed issues for some of Korea's largest corporations, including a $100 million offering for Samsung Electronics Co.–the largest Korean convertible issue ever.

REGIONAL COMPARISON OF ECONOMIC GROWTH *(Real GDP Growth)*

Sources: World Bank, International Monetary Fund, Merrill Lynch



As the People's Republic of China continued moving rapidly to increase levels of offshore investment through privatizations and joint ventures, Merrill Lynch was involved in seven transactions for investments in China, including arranging a senior floating rate note issue for the People's Construction Bank of China–the first public international transaction for this important Chinese institution.

Our company also served as international lead manager for a Shanghai listed $75 million B share offering for Shanghai No. 2 Textile Machinery Co. Merrill Lynch has also been appointed global coordinator for the first and largest equity-offering of a state owned enterprise, Shanghai Petrochemical Complex, to be listed overseas.

We upgraded our representative office in Seoul to branch office status, enabling us to provide institutional brokerage services in the Korean stock market to offshore investors, while receiving permission from the Bank of Thailand to open a representative office in Bangkok. We filed an application to become the first U.S. securities firm to establish a representative office in Shanghai.

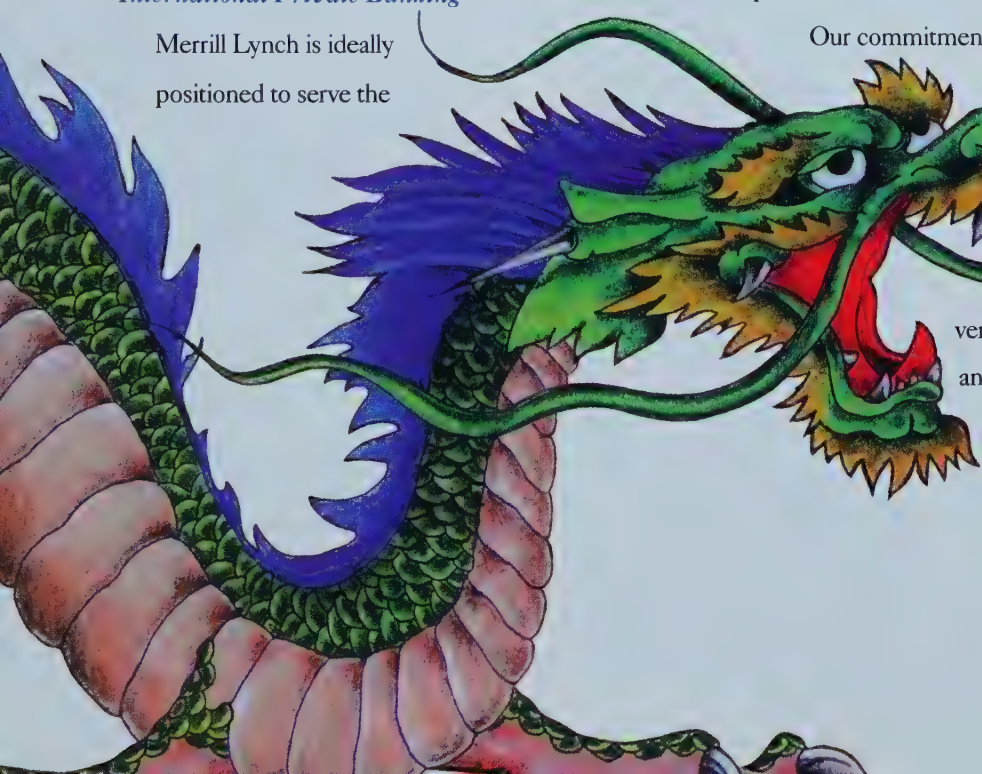
International Private Banking

Merrill Lynch is ideally positioned to serve the growing numbers of high-net-worth individuals in the Asia-Pacific region and elsewhere, with unsurpassed private banking, trust and Swiss banking services, and focused commitment to helping clients take advantage of multimarket and multicurrency investment opportunities.

Anticipating dynamic private banking growth in the area, we are integrating our Singapore brokerage office into a branch of Merrill Lynch International Bank Limited, which is expanding dramatically.

Merrill Lynch also offers a broad and expanding array of professional portfolio management services and special mutual funds for offshore investors.

Our commitment to the Asia-Pacific region was reflected in our highly successful offering of the new Merrill Lynch Dragon Fund, which invests in developing Asia-Pacific markets. We created two versions of the fund–one for U.S. investors and one for offshore investors.



TO HELP INVESTING CLIENTS FIND OPPORTUNITIES IN THE RAPIDLY GROWING ECONOMY OF THE ASIA-PACIFIC REGION, WE LAUNCHED THE HIGHLY POPULAR MERRILL LYNCH DRAGON FUND.

1992 Achievements

Individual Clients

- Total assets in Merrill Lynch client accounts rose to more than $476 billion, up nearly 10%.

- Assets under management by Merrill Lynch Asset Management rose 12%, to $138 billion–as MLAM introduced 39 new funds and added approximately 1,200 discretionary private accounts.

- Total assets in MLAM fixed income funds rose 30% and assets in MLAM equity funds rose 32%. Assets invested by international investors in offshore MLAM funds rose 50%, to $3.4 billion.

- The percentage of client assets invested globally nearly tripled, as our Financial Consultants encouraged clients to take advantage of opportunities in fast-growing global markets.

- Enrollments in Financial Consultant training programs exceeded 5,000, 25% more than in 1991.

- Our significantly enhanced Financial Foundation planning service met with overwhelming client acceptance, increasing our level of formal planning activity 20-fold.

- Over 358,000 Merrill Lynch central asset accounts were opened, bringing our total accounts to 1.8 million–more than all our competitors combined. The innovative CMA® Master Financial℠ service was introduced early in 1993.

- Individual Retirement Account assets held at Merrill Lynch increased 14% to $68.3 billion, more than the combined IRA assets held by the top 80 commercial banks.

- We introduced a full range of mortgage alternatives. PrimeFirst® mortgage originations totaled over $1 billion in 1992, and over $1.6 billion in Equity Access® credit lines were outstanding at year-end.

- Merrill Lynch Insurance Group, Inc., through its insurance company subsidiaries with assets in excess of $12 billion, introduced two major variable products, Merrill Lynch Funds Retirement Plus℠ and Merrill Lynch Funds Investor Life℠.

- International Private Banking enjoyed a record year as international trust assets rose to $2.2 billion, Swiss bank assets to $2.8 billion, and loan and letter of credit volume to $3.3 billion.

- Merrill Lynch Pacific Fund was the top-ranked mutual fund for the 10-year period ending September 30, 1992, according to Lipper Analytical Services, Inc.

Small and Mid-Sized Businesses and Regional Financial Institutions

- Small and mid-sized businesses have entrusted us with a record $90 billion in assets, an increase of 15%.

- Assets in our 103,853 Working Capital Management accounts increased 14% to $30 billion; a total of $810 million in financing commitments were executed.

- Our Merrill Lynch Consults service more than doubled its account base and increased assets under management to $12.2 billion.

- We provided retirement plan services to 42% more businesses than in 1991. We currently serve over 1.5 million participants in more than 75,000 plans with assets in excess of $35 billion.

- Large market employee benefit services account assets–including 401(k) plans–grew 35%.

- Through such clients as PepsiCo, Inc., and E.I. du Pont de Nemours and Company, we now service over 350,000 individual employee stock option plan participants in more than 60 countries.

Sovereign Governments and Municipal Finance

- We continued to be the leader in the global debt markets for sovereign and sovereign affiliates, lead managing a number of the year's most significant transactions, including the first sovereign global bond.

- We remained a market leader in privatizations worldwide. We were No. 1 in derivative-based transactions for emerging market clients, as well as a market leader in repeat business with emerging market issuers.

- The Italian government named Merrill Lynch to advise on the privatization of Credito Italiano–which is expected to be Italy's first major financial institution to be privatized.

- In a year of record issuance, Merrill Lynch ranked No. 1 as overall manager (co-managed and senior managed) of municipal bond issues in 1992.

- Merrill Lynch advised Hungary in the sale of the state tobacco industry and its vegetable oils company.

Large Corporations and Institutional Clients

■ Merrill Lynch ranked No. 1 in domestic equity and equity-linked offerings (including closed-end funds).

■ We remained the No. 1 underwriter of domestic and worldwide debt, including domestic high-grade debt; domestic high-yield debt; floating-rate notes; preferred stock (nonconvertible); commercial paper; and medium-term notes.

■ We continue to be a leader in swaps and debt and equity-linked derivative products. Merrill Lynch Derivative Products, Inc. concluded its first full year of operation with 124 counterparties, a notional principal of $25.9 billion, and 731 transactions.

■ Merrill Lynch was named as *International Financing Review's* "Bank of the Year," with additional honors as "U.S. Debt Market House of the Year," "Eurobond New Issue House of the Year," and "Medium-Term Note House of the Year."

■ In its annual competition, *Euromoney* honored us with three awards for excellence in capital raising, global bond, underwriting and Euro medium-term notes.

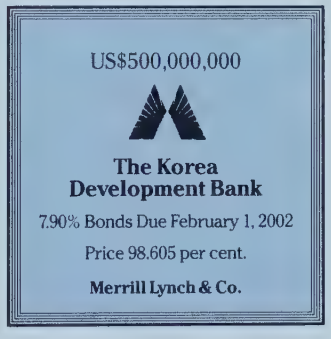
■ Our company managed or co-lead managed a significant proportion of the year's most important transactions, many of which were singled out as "Deals of the Year" by *Institutional Investor, International Financing Review, Investment Dealer's Digest* and *Corporate Finance*.

■ We were No. 1 in the U.S. and worldwide IPO issuance, as well as in common stock, and convertible debt.

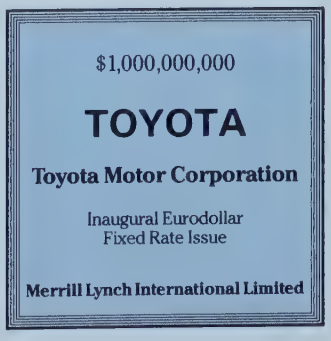
■ We were again No. 1 in Tier One capital raised for financial institutions worldwide and a top-ranked advisor in insurance company M&A, as well as in raising funds for the insurance industry.











■ Our company was a leading trader of equities in the U.S. We are also a market leader in listed block, NASDAQ and ADR trading.

■ Our Government Trading Desk executed a record volume of transactions, solidifying its position as a leading dealer in U.S. government securities.

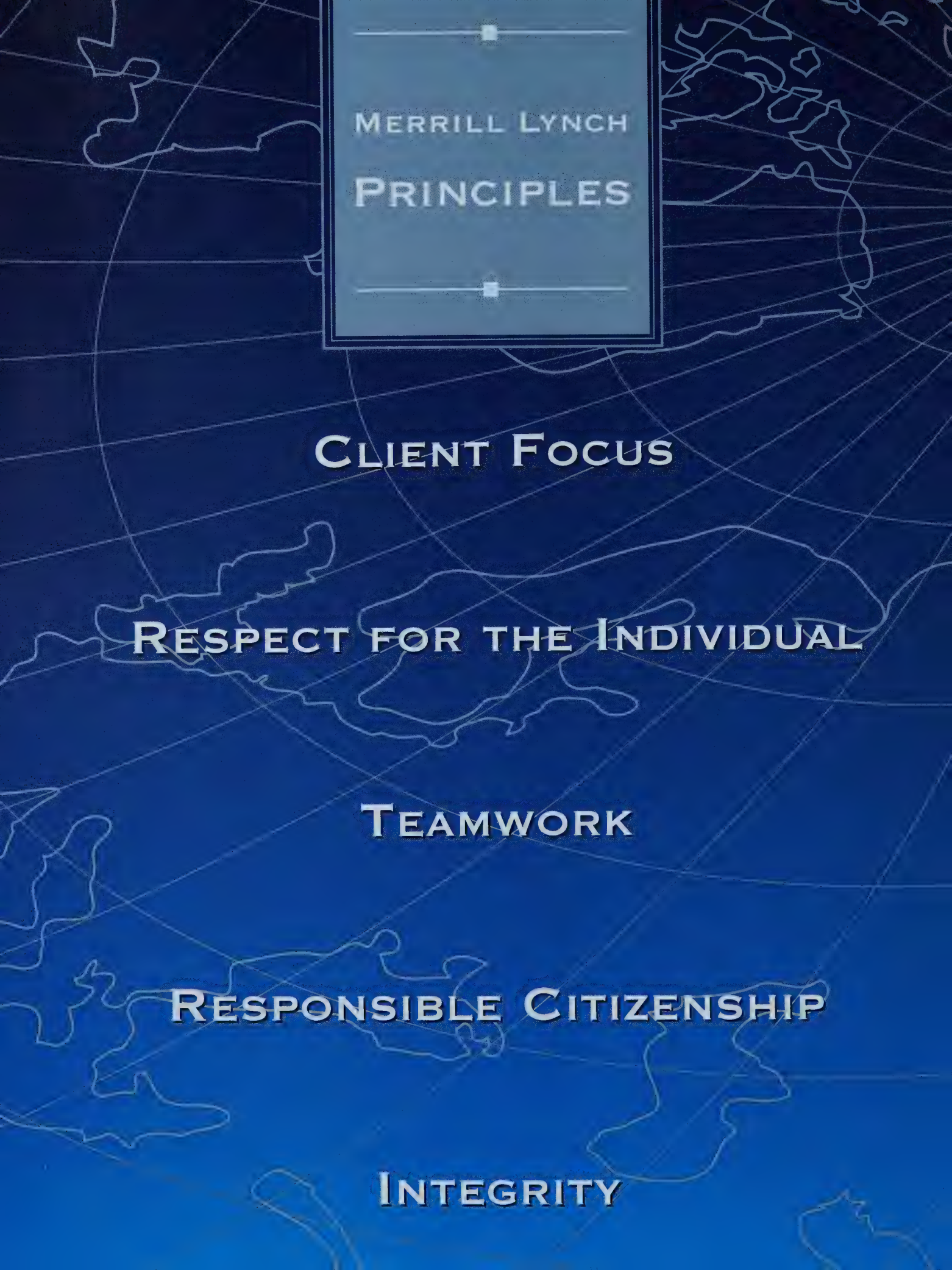
■ Our global research team, with analysts in all major markets and across industries worldwide, is among Wall Street's top-rated. In both internal and external surveys, our analysts are consistently noted for timeliness, precision and depth.

■ To serve global investment needs in new markets, we upgraded to branch office status our representative office in Seoul, Korea, and received permission to open a representative office in Bangkok, Thailand. We also became a member of the Zurich Stock Exchange and applied for branch office status in Shanghai.

■ To maintain and enhance global communications, we are providing our institutional equity sales force worldwide with a new proprietary workstation with state-of-the-art analytic and information management tools.

■ Our Securities Lending Unit, long a market leader, successfully leveraged Merrill Lynch's technology edge to provide increased access and service in global trading.

■ Merrill Lynch Specialists Inc. ended its best year ever, with the successful integration of newly acquired specialist firm Lasker Stone.


Merrill Lynch
Principles
Client Focus
Respect for the Individual
Teamwork
Responsible Citizenship
Integrity

MERRILL LYNCH'S CORPORATE CULTURE EMBRACES A NUMBER OF BASIC PRINCIPLES–CLIENT FOCUS, RESPECT FOR THE INDIVIDUAL, TEAMWORK, RESPONSIBLE CITIZENSHIP AND INTEGRITY–THAT HAVE ENDURED DESPITE COMPETITIVE PRESSURES AND CHANGING MARKETS. MOREOVER, THESE PRINCIPLES HAVE BEEN TRANSLATED INTO A FORMAL SYSTEM OF CORPORATE GOVERNANCE BY WHICH MERRILL LYNCH MANAGES ITS BUSINESSES.

At Merrill Lynch, corporate governance is an integrated, self-reinforcing system of internal checks and balances that is designed to exert control over cost and risk, to safeguard the Corporation's long-standing reputation for ethical conduct, and to continuously guide and encourage the Corporation's employees to meet the needs of its clients and shareholders.

A system of corporate governance cannot fully insulate Merrill Lynch from the risks and volatility inherent in its securities business. Management believes, however, that it has been effective in contributing to the Corporation's improved performance, and in addressing an issue of importance to shareholders, clients, creditors, counterparties and employees: Can Merrill Lynch or any large securities company, operating a complex business in rapidly changing markets, manage its costs, risk and ethical conduct sufficiently to provide more reliable earnings across market cycles?

Merrill Lynch's system of corporate governance addresses these concerns on several levels:

Integrity

At Merrill Lynch, employees frequently are reminded that "no one's personal bottom line is more important than the reputation of the firm." For example, the Corporation's policy for ethical business practices, *Guidelines for Business Conduct*, is part of every employee's orientation and is reissued periodically. All employees are expected to comply with these policies and, as part of a management assessment process, managers are evaluated on how well they embody the Corporation's values.

In the area of compliance, an annual survey is conducted to ensure proper review and supervision of employees' securities transactions, and employees must affirm that they do not have conflicting business interests.

Enhanced Earnings Stability

Key to earnings stability is Merrill Lynch's unique leadership position and focus on establishing long-term

relationships with more than four million households and thousands of institutional and corporate clients. A broad line of products also assures that Merrill Lynch can meet client needs in any market environment, and broad order flow enables us to serve our clients and adjust our market exposure quickly.

Other elements of our strategy for stabilizing earnings include tying incentive pay for all employees to corporate performance and profitability, growing fee-based businesses, and matching the interest rate sensitivity of assets and liabilities.

Checks and Balances

Central to the Corporation's system of organizational checks and balances is an independent Board of Directors. The predominance of independent directors on the Merrill Lynch Board strongly promotes objective representation of the shareholders' interests and independent oversight of the Corporation's activities. Many Board members have substantial experience in managing large, complex organizations, and all of them have distinguished records in their respective fields. To facilitate this oversight, the Board has established committees to exercise key management and control functions, including the Audit and Finance Committee and the Management Development and Compensation Committee, which include only independent directors.

Moreover, to support this system of checks and balances and to encourage cooperation and teamwork, key operating decisions are made by the Executive Management Committee, which is led by the Chairman and the Chief Executive Officer and includes the leaders of the major business and support groups. This structure fosters interdependence, cooperation and reciprocal oversight.

Critical oversight functions such as compliance, risk management, internal audit and financial reporting are independent of the business groups. The Director of Risk Management, for example, reports directly to the Chief Executive Officer, while the Director of Internal Audit reports to the independent director who is Chair of the Audit and Finance Committee of the Board. Other oversight functions have dual reporting relationships that are intended to provide responsive service to the core businesses without sacrificing independence. Legal, financial, credit, operations, systems and human resources personnel are accountable both to their respective corporate function heads and to the business groups they support.

Risk and Resource Management

The Corporation's assessment and management of risk and corporate resources involve a number of functions:

- An independent Risk Management group establishes parameters for overall market risk and has clear authority to enforce trading limits. Moreover, systems and procedures have been installed to monitor positions and risks in "real time."
- The Credit division performs credit analyses, monitors credit exposure and executes work-out strategies. Credit systems track and assign corporate-wide exposure to each client and counterparty.
- Internal Audit provides an independent appraisal of the Corporation's operations and internal controls. Audits determine whether policies and procedures are being followed, client and corporate assets are safeguarded, and corporate resources are deployed efficiently.
- Operations, Systems & Telecommunications plays an integral role in many of the audit and compliance

reporting functions, particularly through exception reporting and regular monitoring of business activities. Contingency and recovery plans, and resources designed to prevent or respond to the loss of critical operational capabilities also have been established.

- An Executive Management Reserve Committee meets monthly to evaluate the appropriateness and adequacy of reserves.

Strategically, Merrill Lynch has successfully emphasized asset gathering and fee-based services to cover an increasing proportion of fixed costs and to reduce dependence on more cyclical transaction revenues. The Corporation also has developed a funding policy that is intended to ensure liquidity at all times and includes the availability of alternative funding sources when conditions favorably or adversely impact the Corporation.

To manage its resources effectively, Merrill Lynch has instituted comprehensive policies and procedures, including strategic and financial criteria for evaluating existing and prospective investments. Business units are responsible for generating a minimum risk-adjusted return, and proposed new products are evaluated by a product review process and an Investment Review Committee. Proposed capital commitments are subjected to a formal capital budget process and, above specified thresholds, to Executive Management Committee approval. At larger commitment levels, approval of the Board or the Audit and Finance Committee may be required.

Employee Development

Empowering our employees to compete, adjust and innovate is central to corporate governance and the day-to-day management of the Corporation's business. From the outset, employees are instilled with the Corporation's values: integrity and ethical business practices, teamwork, client focus, respect for the individual and responsible citizenship. Our compensation plans reinforce these values by aligning the interests of employees with the interests of shareholders and clients. Return on equity (ROE), profit and share price are the key factors that influence incentive compensation. As a result, all Merrill Lynch employees have a strong incentive to improve the Corporation's financial performance, uphold its "Tradition of Trust" and provide superior client service.

Cost Control

Management places great importance on reducing and controlling expenses, and cost consciousness regularly is communicated and reinforced. To track costs, management uses many weekly, monthly and quarterly measures, including various expense and productivity ratios. Another important element of cost control is incentive compensation, which is linked to profit and thereby reinforces attention to controlling costs.

Corporate governance is a process that is designed to sustain, regulate and reinforce itself. It does not rely on employees' collective memory of past experiences or depend on management's involvement with every detail. Employees are encouraged to act decisively in the shareholders' interest according to clear rules regarding risk and ethical behavior. At the same time, our system of corporate governance better enables management to discharge its responsibility for monitoring performance, allocating resources and ensuring compliance. Through effective corporate governance, the Corporation intends to capitalize on its unique market position to achieve superior operating performance across business cycles.

SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1992 *(52 Weeks)*	1991 *(52 Weeks)*	1990 *(52 Weeks)*	1989 *(52 Weeks)*	1988 *(53 Weeks)*
Operating Results					
Revenues	$ 13,428,291	$ 12,362,845	$ 11,150,816	$ 11,275,951	$ 9,694,980
Interest Expense	4,835,267	5,106,344	5,363,900	5,371,028	3,768,203
Net Revenues	8,593,024	7,256,501	5,786,916	5,904,923	5,926,777
Non-Interest Expenses	6,971,635	6,239,083	5,504,588	6,063,309	5,315,521
Earnings (Loss) Before Income Taxes, Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	1,621,389	1,017,418	282,328	(158,386)	611,256
Income Tax Expense	668,984	321,301	90,472	58,980	165,361
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 952,405	$ 696,117	$ 191,856	$ (217,366)	$ 445,895
Net Earnings (Loss)	$ 893,825	$ 696,117	$ 191,856	$ (213,385)	$ 463,182
Net Earnings (Loss) Applicable to Common Stockholders	$ 887,486	$ 678,392	$ 167,932	$ (235,401)	$ 444,909
Financial Position					
Total Assets	$107,024,173	$ 86,259,343	$ 68,129,527	$ 63,942,263	$ 64,402,655
Short-Term Borrowings *(a)*	$ 51,179,530	$ 38,697,544	$ 27,340,915	$ 28,558,220	$ 34,390,484
Long-Term Borrowings	$ 10,871,100	$ 7,964,424	$ 6,341,559	$ 6,897,109	$ 6,283,349
Total Stockholders' Equity	$ 4,569,104	$ 3,818,088	$ 3,225,430	$ 3,151,343	$ 3,484,178
Common Share Data					
Primary:					
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 8.36	$ 6.02	$ 1.59	$ (2.35)	$ 4.12
Net Earnings (Loss)	$ 7.84	$ 6.02	$ 1.59	$ (2.31)	$ 4.29
Fully Diluted:					
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	$ 8.34	$ 5.90	$ 1.59	$ (2.35)	$ 4.04
Net Earnings (Loss)	$ 7.82	$ 5.90	$ 1.59	$ (2.31)	$ 4.21
Book Value	$ 42.77	$ 35.76	$ 29.97	$ 28.52	$ 32.43
Total Taxes *(b)*	$ 7.87	$ 4.55	$ 2.46	$ 2.35	$ 3.34
Dividends Paid	$ 1.15	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Weighted Average Shares Outstanding:					
Primary	113,201,000	112,675,000	105,526,000	101,859,000	103,746,000
Fully Diluted	113,427,000	114,958,000	105,526,000	101,859,000	108,890,000
Shares Outstanding at Year-End *(c)*	103,601,344	102,721,818	99,834,635	102,691,377	98,686,499
Financial Ratios					
Pretax Margin *(e)*	18.9%	14.0%	4.9%	(d)	10.3%
Profit Margin *(f)*	11.1%	9.6%	3.3%	(d)	7.5%
Common Dividend Payout Ratio	13.5%	15.2%	61.8%	(d)	23.2%
Return on Average Assets	0.8%	0.8%	0.3%	(d)	0.8%
Return on Average Common Stockholders' Equity	22.0%	20.8%	5.8%	(d)	14.8%
Leverage	25.1x	24.1x	22.9x	20.2x	18.2x
Other Statistics					
Number of Full-Time Employees *(g)*	40,100	38,300	39,000	41,200	41,800
Number of Financial Consultants and Account Executives	12,700	12,100	11,800	12,300	12,600
Number of Sales Offices:					
Domestic	460	460	460	465	470
International	50	50	50	55	80
Domestic Assets Under Management	$138,000,000	$123,000,000	$110,000,000	$ 98,000,000	$ 78,000,000
Assets in Domestic Private Client Accounts	$456,000,000	$417,000,000	$356,000,000	$334,000,000	$276,000,000

(a) Short-Term Borrowings include repurchase agreements, and commercial paper and other short-term borrowings.

(b) Excludes the 1992 income taxes related to the cumulative effect of changes in accounting principles. Includes the aggregate income taxes associated with the discontinued operations of Fine Homes International, L.P. in 1989 and 1988.

(c) Does not include 5,600,836, 6,818,410, 8,035,984 and 9,326,731 unallocated shares held in the Employee Stock Ownership Plan at year-end 1992, 1991, 1990 and 1989, respectively, which are not considered outstanding for accounting purposes.

(d) As a result of the net loss in 1989, this ratio is not meaningful.

(e) Earnings Before Income Taxes, Cumulative Effect of Changes in Accounting Principles and Discontinued Operations to Net Revenues.

(f) Earnings Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations to Net Revenues.

(g) Excludes employees of Fine Homes International, L.P. in 1988.

Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in the Annual Report in accordance with generally accepted accounting principles. The consolidated financial statements and related notes include amounts based upon our best estimates and judgments. Other financial data incorporated in the Annual Report are consistent with the financial statements.

Management recognizes the importance of safeguarding the Corporation's integrity and understanding the risks of the business. Therefore, Management devotes considerable attention to promoting the highest standards of ethical conduct, exercising responsible stewardship over the Corporation's assets, and presenting fair financial statements.

To achieve these objectives, Management has designed a framework of checks and balances including policies, procedures and organizational structure, all overseen by a predominantly independent Board of Directors.

Several committees of the Board actively participate in setting policy and monitoring controls. The Audit and Finance Committee, consisting entirely of independent directors, examines the Corporation's compliance with acceptable business standards and ethics. It also reviews significant financial issues, recommends overall policies regarding risk and funding requirements and recommends to the Board of Directors the appointment of the Corporation's independent auditors. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the performance of the Corporation's employees with an emphasis on ethical business behavior.

Further oversight is provided by Corporate units such as Internal Audit, Credit, Risk Management, Legal and Compliance. Internal Audit reports directly to the Audit and Finance Committee and provides independent appraisal of the Corporation's internal accounting controls and its compliance with established policies and procedures.

Corporate Credit monitors credit exposure while working with the business groups in controlling overall credit risk.

The Risk Management group establishes parameters for market risk assumed by the Corporation. Systems and procedures have been installed to monitor positions and risks. In addition, Risk Management has clear authority to enforce trading limits.

Legal and Compliance serves in a counseling and advisory role to Management with respect to developing Corporate policies and monitoring compliance with those policies and with applicable laws and industry regulations.

Further, the Corporation's independent auditors, Deloitte & Touche, perform annual audits in accordance with generally accepted auditing standards, which include a review of the internal accounting control system.

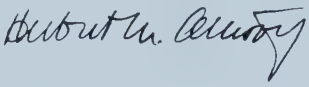
The Corporation continually reviews its framework of controls, taking into account changing circumstances and continues to make modifications when required and cost-effective.



WILLIAM A. SCHREYER
Chairman of the Board



DANIEL P. TULLY
President and Chief Executive Officer



HERBERT M. ALLISON, JR.
Executive Vice President Finance and Administration, Chief Financial Officer

Independent Auditors' Report

Deloitte & Touche

To The Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries as of December 25, 1992 and December 27, 1991 and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for each of the three years in the period ended December 25, 1992. These financial statements appearing on pages 41 through 58 are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and subsidiaries at December 25, 1992 and December 27, 1991, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 1992 in conformity with generally accepted accounting principles.

As discussed in the note to the consolidated financial statements entitled, "Accounting Changes," in 1992 the Corporation changed its method of accounting for postretirement benefits other than pensions and its method of accounting for income taxes to conform with Statements of Financial Accounting Standards No. 106 and No. 109, respectively.



New York, New York
February 22, 1993

BUSINESS ENVIRONMENT

Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation") conduct their businesses in global financial markets that are influenced by a number of factors including economic conditions, political events, and investor sentiment. The reaction of issuers and investors to a particular condition or event is unpredictable and can create volatility in the marketplace. While higher volatility can increase risk, it also increases order flow, which drives many of the Corporation's businesses. Other market conditions, including the liquidity of secondary markets, the level and volatility of interest rates, currency and security valuations, competitive conditions, and the size, number and timing of transactions may also affect earnings. As a result, revenues and net earnings can vary significantly from year to year, and from quarter to quarter.

In 1992, worldwide economies were mixed. The U.S. economy grew slowly, while the economies of Europe continued to stagnate. The Asian economies, with the exception of Japan, continued to grow. For the second consecutive year, however, many financial services firms in the United States posted record earnings. Low interest rates and receptive U.S. markets led to robust underwriting activity. The aggregate volume of new U.S. stock and bond issues surpassed last year's record level as U.S. companies adjusted their capital structures through sales of stock, debt repayments or refinancings at lower interest rates. Consequently, fees earned from the underwriting of corporate and high-yield debt, as well as public equity offerings, reached record levels industry-wide. There also was strong demand for financing in the world's emerging markets, particularly through privatizations in Mexico, other Latin American countries, and Eastern Europe. Merger and acquisition activity however, remained well below the levels of the late 1980s.

Within the institutional markets, investor demand remained strong for select equity issues, and foreign exchange markets also were active as a result of volatility in European currencies. Trading in swaps and derivatives continued to be strong, as companies moved to manage interest rate and currency exposures associated with recent debt underwritings and investors hedged their portfolios to enhance yields and manage risk.

Economic conditions also have spurred other lines of business. Individual investors, in search of higher yields, continued to shift assets from short-term investments to a variety of equity, debt and mutual fund investments. Commission revenues, fees earned from managing assets, and principal transactions revenues benefited from the increased flow of funds.

Despite the favorable operating environment, the Corporation is mindful that market conditions may change and continues to focus on controlling costs and managing risks. These efforts, together with evaluating businesses based on profitability, building a fee-based market franchise, and linking compensation to profitability, should help to alleviate the impact of cyclical reductions in market prices and volumes.

RESULTS OF OPERATIONS

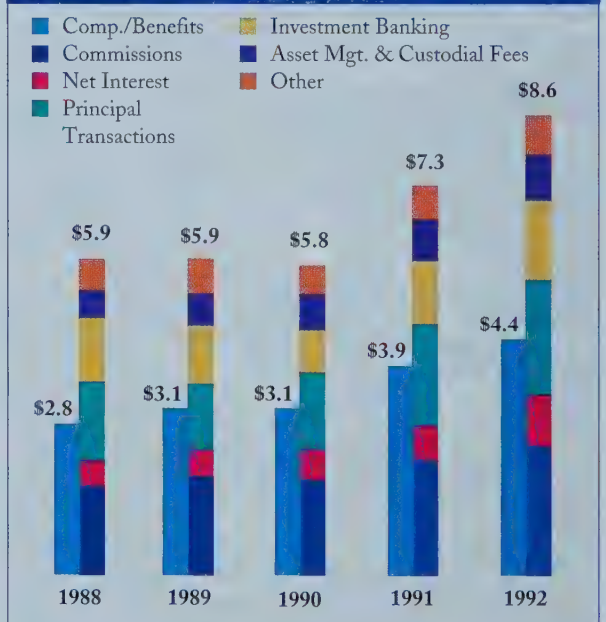
The Corporation achieved record net earnings in 1992 as a result of favorable market conditions in virtually all lines of business, tight cost control, risk management, and continued strong market share. Net earnings were a record $893.8 million or $7.84 per common share primary ($7.82 fully diluted), advancing 28% over the $696.1 million or $6.02 per common share primary ($5.90 fully diluted) reported in 1991. In 1990, net earnings totaled $191.9 million or $1.59 per common share primary and fully diluted.

The 1992 results include the early adoption of two accounting pronouncements, Statement of Financial Accounting Standards ("SFAS") No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 109, *Accounting for Income Taxes*. The cumulative effect of these changes in accounting principles reduced earnings by $58.6 million or $.52 per common share primary and fully diluted. Earnings before the cumulative effect adjustment were $952.4 million or $8.36 per common share primary ($8.34 fully diluted).

Pretax earnings also were a record, up 59% to $1.621 billion, surpassing the previous record of $1.017 billion in 1991. Pretax earnings in 1990 were $282.3 million. The pretax profit margin climbed to 18.9% in 1992 from 14.0% in 1991 and 4.9% in 1990.

COMPENSATION/BENEFITS COMPARED WITH NET REVENUE COMPOSITION

(In Billions)



Revenues, net of interest expense ("Net Revenues") were a record $8.59 billion in 1992, an increase of 18% and 48% from those reported for 1991 and 1990, respectively. Revenue growth was broad-based, with virtually all operating revenue categories performing at levels above the two prior years.

Non-interest expenses totaled $6.97 billion, up 12% and 27%, respectively, from those reported for 1991 and 1990. Expenses that are directly related to business volume include incentive and production

related compensation, and brokerage, clearing and exchange fees. These expenses increased 14% over 1991. Other non-interest expenses which include base salaries, payroll taxes, benefit costs and all remaining expense categories, increased 10% over 1991. Expenses such as advertising and market development, and professional fees contain certain discretionary components which are closely monitored and can be reduced as business levels fluctuate.

Favorable market conditions and continued emphasis on managing and controlling costs has enhanced the Corporation's overall profitability. As a result, after tax profit margins improved in 1992 to 11.1% (10.4% after the cumulative effect of changes in accounting principles) versus 9.6% and 3.3% in 1991 and 1990, respectively. The Corporation's return on average common stockholders' equity also increased in 1992 to 22.0% compared with 20.8% in 1991 and 5.8% in 1990.

Prior years' financial statements have been reclassified to conform to the presentation for the current period. (See "Basis of Presentation" in the Notes to Consolidated Financial Statements.)

The following discussion highlights in more detail changes in the major categories of revenues and expenses.

COMMISSIONS

Commission revenues increased 12% in 1992 to $2.40 billion due to the growth in listed securities transactions and sales of mutual funds.

Commissions from listed securities advanced 8% from 1991 as investors continued to participate actively in the equity markets. The increase in investor activity was attributable, in part, to reduced interest rates, which caused many investors to redirect their assets in an effort to take advantage of relatively attractive dividend yields and overall returns on equity investments. Average daily trading volume on the New York Stock Exchange ("NYSE") increased 13% from the 1991 average, while the Dow Jones Industrial Average ("DJIA") average close, a measure of share prices, was 3,283, exceeding by 12% the 1991 average close. The Corporation's 1992 market share of publicly listed equity volume remained at 10.6%.

Mutual fund commissions rose 29% to $668 million due to the increases in sales of front-end funds and fees earned on deferred charge funds. Individual investors continued to shift from certificates of deposit and other low interest-yielding cash investments to equity and fixed-income funds yielding higher returns. Moreover, as a result of strong sales in both the current and prior periods, a higher level of distribution and redemption fees was earned on deferred charge funds.

Commission revenues for 1991 increased 22% from 1990 due to the growth in sales of listed securities and mutual funds. Commissions from listed securities increased due to significantly higher levels of individual investor market participation, while mutual fund commissions benefited from increased demand due to attractive yields, and higher levels of distribution and redemption fees.

At year-end 1992, the Corporation had approximately 12,700 Private Client Financial Consultants and Institutional Account Executives worldwide compared with 12,100 at year-end 1991 and 11,800 at year-end 1990.

INTEREST AND DIVIDENDS

Interest and dividend revenues increased slightly over 1991 to $5.81 billion, as higher levels of interest-earning assets were offset by lower interest rates. Interest expense, which includes dividend expense, declined 5% in 1992 to $4.84 billion as lower funding costs more than offset the higher level of interest-bearing liabilities. As a result, net interest and dividend profit reached a record $971 million, up 48% from 1991.

Underlying the record performance in net interest and dividend profit were growth of the balance sheet, increases in equity capital and margin lending, and an increase in the Corporation's interest rate spreads. Contributing to improved rate spreads were lower borrowing costs due to credit upgrades by rating agencies.

In 1992, the widening yield curve—the difference between short-term and long-term interest rates—led to increased investor activity and affected both principal transactions revenues and interest and dividend profit. Factors such as potential principal transactions gains/losses and interest revenues/expenses resulting from hedging or financing must be considered in the aggregate when measuring the profitability of these transactions. For financial reporting purposes, however, realized and unrealized gains and losses on trading positions and related hedging strategies are reflected in principal transactions, while the net carrying cost of trading positions and interest earned or accrued as a result of these hedging activities are reflected in net interest profit. Changes in hedging strategies, such as shifting between interest-bearing bonds and non-interest bearing securities (e.g., options, futures) to hedge inventory positions, can shift income or expense from principal transactions to net interest and dividends or vice versa.

In 1991, net interest and dividend profit increased 13% over 1990 primarily due to growth in the balance sheet and reduced borrowing costs. The interest spread on interest-earning assets match-funded by interest-bearing liabilities widened in 1991 as the cost of short-term funding declined more than the yields on longer-term fixed-income and equities inventories.

PRINCIPAL TRANSACTIONS

Principal transactions revenues rose to record levels in 1992, up 13% from 1991 to $2.15 billion due to increases in customer order flow along most product lines. Fixed-income and foreign exchange trading revenues, in the aggregate, increased 15% on the strength of substantially higher revenues from swaps and derivatives and foreign exchange.

Revenues from swaps and derivatives advanced substantially over the prior year as a result of increased volume and growth in the derivatives markets. Derivatives were used by corporate issuers to manage interest rate and currency risk and by investors to enhance overall yields and manage risk. Foreign exchange revenues advanced due to increased volume, as investors were active in the currency markets due to European monetary volatility in the latter part of the year.

Equities revenues rose 8% above 1991 on the strength of the over-the-counter markets and higher revenues from international equities. Over-the-counter trading revenues, primarily related to order flow, increased 17%, bolstered by an 18% increase in the NASDAQ average daily volume, while favorable market conditions led to heightened activity in the international equities markets.

In 1991, principal transactions revenues were robust, rising 31% above those reported for 1990. Fixed-income and foreign exchange trading revenues, in the aggregate, increased 23% on the strength of higher revenues from derivative products and secondary trading, while equities revenues surged 64% due to increased volume in the over-the-counter markets.

Investment Banking

Investment banking revenues were a record $1.48 billion, up 26% over 1991 due primarily to strong revenues from underwriting activities.

Underwriting revenues increased by 28% in 1992 as the aggregate volume of debt and equity issuance reached record levels. In 1992, corporate issuers continued to strengthen their capital structures by refinancing higher interest-bearing debt, while investors continued to demand equity instruments offering a greater potential return. Revenues from the underwriting of equity and closed-end funds advanced due to increased investor demand. Preferred stock, corporate debt, and high-yield and municipal bonds also benefited from favorable market conditions.

The Corporation remained the top underwriter of U.S. debt and equity securities for the fifth consecutive year and global leader for the fourth consecutive year, bringing approximately $151 billion of securities to market worldwide. The Corporation's domestic market share of underwriting volume was 16.5%, compared with 17.1% in the prior year, while global market share of underwriting volume remained at 13.0%.

Revenues from strategic services, including fees for debt restructuring, merger and acquisition activity and other advisory services, continued well below the revenue levels achieved during the late 1980s. Nevertheless, strategic services revenues rose 14% in 1992 as a result of increased merger and acquisition activity.

In 1991, investment banking revenues increased 48% from 1990, due to growth in underwriting of equities, corporate debt and mortgage and asset-backed securities. Revenues from strategic services in 1990 were affected by the low level of merger and acquisition activity.

Asset Management and Custodial Fees

Revenues from asset management and custodial fees reached record levels, advancing 11% in 1992 to $859 million due to increased fees earned from both fund management and central asset account management services. This achievement reflects the success of the Corporation's strategy in advising clients to save and allocate their assets for investment diversity, greater returns and retirement planning.

Asset management fees, of which 87% are attributable to Merrill Lynch-sponsored mutual funds, increased 9% from 1991 due primarily to asset growth in stock and bond funds.

Assets under management by Merrill Lynch Asset Management ("MLAM") increased $15 billion, or 12%, to $138 billion at year-end 1992. As noted previously, the majority of this increase was in stock and bond funds, which grew by $12 billion, to $51 billion, up 31% over year-end 1991. Assets under management for 1992 include approximately $7.7 billion of investments of insurance subsidiaries, which grew by 4% in 1992.

With the exception of money market assets which declined slightly, assets in all other fund groups increased from the prior year. Fixed-income and equity funds gained a larger percentage than other funds, reflecting investor preference for higher-yielding fixed-income and equity investments over lower-rate certificates of deposit and money market funds. Fixed-income and equity funds in the aggregate represented 37% of total assets under management in 1992, up from 32% in 1991, while money market funds represented 48% in 1992, down from 54% in 1991.

Fee-based revenues from CMA® accounts and retirement accounts increased 15% from 1991. The advance in CMA fee revenue during 1992 is the result of a 25% increase in the annual service fee that was instituted in September 1991, as well as growth in the number of client accounts. The increase in retirement account management fees is principally attributable to the growth in the number of accounts.

Asset management and custodial fees were 15% higher in 1991 than in 1990 as fees earned from both fund management and central asset account management services increased. Assets under management by MLAM grew by $13 billion to $123 billion at year-end 1991.

Other Revenues

Other revenues rose 18% in 1992 to $732 million. Other revenues include fees from Merrill Lynch Consults®, Working Capital Management℠ Accounts, securities processing, transfer agency, as well as proxy revenues and investment gains and losses.

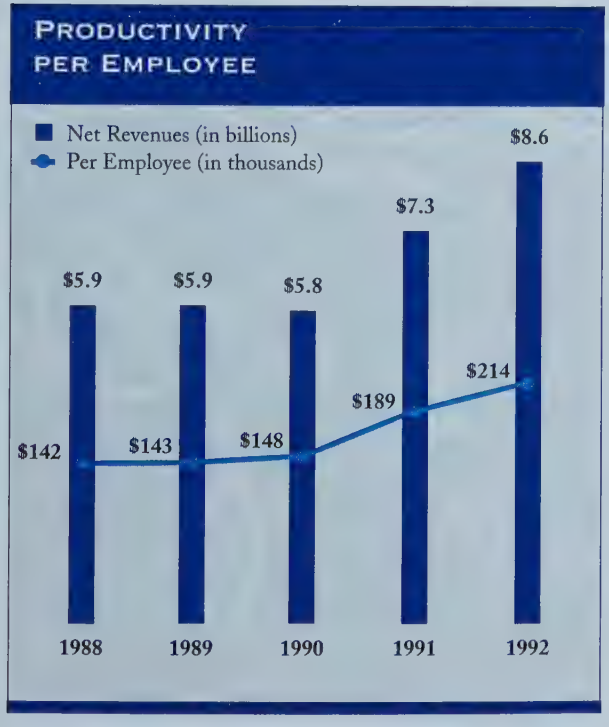
Contributing to the growth in other revenues was a higher level of fees related to Merrill Lynch Consults, an investor portfolio management service, as well as higher securities processing fees. Substantially offsetting the increases in other revenues were net investment losses totaling $120 million which include provisions related to merchant banking activities. Merchant banking loss provisions reflect adjustments to certain positions where the carrying value was in excess of the estimated net

realizable value. Merchant banking positions are carried at lower of cost or estimated net realizable value. In certain instances, sales of merchant banking positions are subject to limitations restricting the Corporation's ability to dispose of these instruments until required holding periods expire. Management believes that assets as currently valued are fairly stated. However, as economic conditions change in 1993 and beyond, additional loss provisions may be required.

In 1991, other revenues increased 15% from 1990 as a result of a higher level of fees related to Merrill Lynch Consults as well as higher securities processing fees. Included in other revenues were net investment losses, principally related to merchant banking activities, of $47 million and $45 million in 1991 and 1990, respectively.

NON-INTEREST EXPENSES

Non-interest expenses totaled $6.97 billion, up 12% over the prior year. The largest expense category, compensation and benefits, increased 13% from 1991. Nevertheless, despite an increase in the number of full-time employees from 38,300 to 40,100 at year-end 1992, compensation and benefits expense as a percentage of net revenues declined to 50.8% from 53.3% in the prior year (the 1991 ratio includes $169 million related to a non-recurring incentive compensation program linked to the Corporation's return on equity). The majority of the headcount increase occurred in revenue producing areas. As a result, the Corporation's ratio of support employees to producers declined at the end of 1992 to 1.46:1 from 1.50:1 at the end of the prior year.



The increase in compensation and benefits expense was primarily due to the rise in incentive and production related compensation tied directly to the Corporation's profitability and return on equity. Other components of compensation and benefits expense increased from 1991 due primarily to increases in salaries and higher benefits expenses. These expenses rose due to higher payroll taxes and pension costs related to increased incentive compensation, as well as increases in postretirement health care and life insurance costs now required to be accrued under SFAS 106. Expenses for brokerage, clearing and exchange fees increased 17% primarily as a result of increased trading volume.

Facilities-related costs including occupancy, depreciation and amortization, and communications and equipment rental expenses increased 1% from the prior year. Occupancy and depreciation and amortization, in the aggregate, increased 1% principally as a result of higher international occupancy costs. Communications and equipment rental expense increased 2% due to higher communication costs for market data and news services, as well as equipment maintenance. Equipment rental expense, however, decreased from the prior year as a result of volume discounts received for leased equipment.

Advertising and market development expenses increased 21%, reflecting the higher costs of both recognition and sales promotion programs for Financial Consultants that are tied directly to the level of business activity. The favorable operating environment also led to the discretionary expansion of certain national advertising campaigns.

Professional fees increased 9% due, in part, to ongoing discretionary systems and strategic development projects, while other expenses increased 19% principally as a result of additions to loss provisions related to various business activities.

Non-interest expenses in 1991 increased 13% from 1990 primarily due to growth in compensation and benefits expense and other expense categories–brokerage, clearing and exchange fees and advertising and market development expense–tied to heightened business activity. Offsetting the growth in these expense areas were declines in facilities-related costs.

INCOME TAXES

The Corporation's 1992 income tax provision of $669 million represents an effective tax rate of 41.3%. This compares with income tax provisions of $321 million and $90 million in 1991 and 1990, respectively. The effective tax rate for 1991 and 1990 was 32% each year.

During 1992, the Corporation adopted SFAS No. 109, *Accounting for Income Taxes*. Previously, the Corporation accounted for income taxes in accordance with SFAS No. 96. As a result of adopting the new accounting pronouncement, the Corporation recorded a $17.8 million cumulative effect benefit as of the first quarter 1992. The cumulative effect adjustment recognizes the utilization of previously unrecorded state and local tax benefits. The increase in the effective tax rate, compared to the prior two years, represented reduced availability of alternative minimum tax credits and net operating loss carryforwards. All available alternative minimum tax credits and net operating loss tax benefit carryforwards from prior years were utilized by the end of 1992.

The Corporation's effective tax rate may increase modestly in 1993 under current tax laws, with the possibility of a more significant increase if higher proposed

corporate tax rates and other tax reforms are enacted in the U.S.

Income tax expense in 1991 and 1990 reflected the utilization of previously unrecognized tax benefits.

LIQUIDITY AND LIABILITY MANAGEMENT

The primary objective of the Corporation's funding policies is to assure liquidity at all times. To strengthen liquidity the Corporation maintains a strong capital base, issues term debt, obtains committed backup credit facilities, concentrates debt issuance through Merrill Lynch & Co., Inc. (the "Parent"), and pursues expansion and diversification of funding instruments and creditors.

There are three key elements to the Corporation's liquidity strategy. The first is to maintain alternative funding sources such that all debt obligations maturing within one year, including commercial paper and the current portion of term debt, can be funded when due without issuing new unsecured debt or liquidating any business assets. The most significant alternative funding sources are the proceeds from executing repurchase agreements ("repos") and obtaining secured bank loans, both employing unencumbered investment-grade marketable securities. The calculation of proceeds available from repos and secured bank loans takes into account both a conservative estimate of excess collateral required by secured lenders, and regulatory restrictions on upstreaming cash from subsidiaries to the Parent. The ability to execute this secured funding is demonstrated by the Corporation's routine use of repo markets to finance inventory and by periodic tests of secured borrowing procedures with banks. Other alternative funding sources could include liquidating cash equivalents (floating rate short-term securities) held by the Parent, securitizing home equity and PrimeFirst℠ loans, and drawing upon committed credit facilities.

As an additional measure, the Corporation regularly reviews its asset mix and related liabilities to ascertain its ability to conduct core businesses without reliance on issuing new unsecured debt or drawing upon committed credit facilities for terms beyond one year. The composition of the Corporation's asset mix provides a great degree of flexibility in managing liquidity. The Corporation monitors the liquidity of assets, the quality of committed credit facilities and the overall level of term debt in assessing financial strength at any point in time.

The second element of the Corporation's liquidity strategy is to concentrate all general purpose borrowing at the Parent level, except where international tax regulations and time differences make this impractical. The benefits of this guideline are: a) the lower financing costs that result from the reduced risks of a diversified asset and business base; b) the simplicity, control and wider name recognition from having banks, creditors and rating agencies deal with one borrower; and c) the flexibility to meet variable funding requirements within subsidiaries.

The third element is to expand and diversify funding sources and to maintain strict concentration standards for short-term lenders. The Corporation's short and long-term funding programs benefit from the large, diversified customer base and financial creativity of the Corporation's capital market and private client operations. Commercial paper remains the Corporation's major source of short-term general purpose funding. Commercial paper outstanding totaled $9.6 billion at December 25, 1992 and $7.7 billion at December 27, 1991, which represented 9% of total assets each year. Through its own sales force, the Corporation markets its commercial paper to thousands of investors and is able to maintain tight concentration standards that include limits for any single investor. In 1992, total term debt issuance was a record $5.8 billion as the Corporation was active in both domestic debt markets and Euro markets through private and public placements. Foreign currencies and different interest rate indices were hedged to match the economic characteristics of the Corporation's assets. Outstanding term debt grew to $10.9 billion from $8.0 billion in 1991. At December 25, 1992, $6.7 billion of term debt had maturities beyond one year, and the average maturity on all outstanding term debt was 2.8 years compared with 2.3 years at year-end 1991.

CAPITAL RESOURCES AND CAPITAL ADEQUACY

The Corporation remains one of the most highly capitalized institutions in the U.S. securities industry with an equity base of $4.6 billion at December 25, 1992. The quality of this equity base is high because it includes $4.4 billion in common equity, supplemented by $0.2 billion in preferred stock. The Corporation's overall capital needs are continually reviewed to ensure that its capital base can support the estimated needs of its business units. These reviews take into account business needs as well as the regulatory and legal capital requirements of subsidiaries. Based upon these analyses, management believes that the Corporation's equity base is adequate.

ASSETS AND LIABILITIES

The Corporation manages its balance sheet, including position limits, according to market conditions and the needs of its businesses subject to criteria for profitability and control of risk. Levels of assets and liabilities are maintained to facilitate order flow and fluctuate daily, sometimes significantly, depending upon volume and demand. The liquidity and maturity characteristics of assets and liabilities are monitored continuously. Since balance sheet levels fluctuate significantly during the year, the Corporation uses average daily balances to monitor and manage the growth and funding of its balance sheet. The discussion that follows relates to changes in average daily balances, not year-end balances. The increase in average balance sheet levels in 1992 was attributable to many factors, including customer order flow, investor demand, interest rates and hedge transactions.

In 1992, average assets were $105 billion, up 24% from $85 billion of average assets in 1991. Average liabilities in 1992, also rose 24% to $102 billion from $82 billion of average liabilities in 1991. The major components in the growth of average assets and liabilities are summarized as follows:

(Dollars in Millions)	Increase in Average Assets	Increase
Resale Agreements	$8,998	43%
Trading Inventories	7,536	31
Customer Receivables	2,020	30

	Increase in Average Liabilities	Increase
Repurchase Agreements	$9,153	37%
Commitments for Securities Sold but Not Yet Purchased	4,402	41
Long-Term Borrowings	2,086	27
Commercial Paper and Other Short-Term Borrowings	1,347	12

Because separate analysis of these components is not always meaningful, the growth in average assets and liabilities is viewed in the aggregate, by each line of business, and based on subsidiary capital needs and profitability.

Heightened business activity in fixed-income and equity markets contributed to the growth in trading inventories and customer receivables. In 1992, the Corporation expanded its trading businesses in Europe and Japan, and entered into an increased number of related hedge transactions involving swaps and options. Trading inventories were financed through a variety of funding vehicles including repurchase agreements ("repo"), commercial paper and other short-term funding sources. The Corporation was able to carry higher levels of fixed-income securities due to lower funding costs. In 1992, the Corporation continued to diversify its funding sources placing additional emphasis on medium-term notes (included in long-term borrowings) to finance parts of its businesses. In managing its balance sheet, the Corporation approximately match-funds its interest-earning assets with interest-bearing liabilities. For example, match-funding is common in the resale/repo markets where securities received on resales are repoed to third parties with an interest spread earned on these transactions. The mix of long-term funding is also adjusted to match the lives of longer-term, less liquid assets and to promote overall liquidity.

Commitments for securities sold but not yet purchased also rose over last year's average levels due to additional hedging activities related to a higher asset base. The Corporation enters into hedging transactions, as appropriate, in an effort to minimize risk.

Stockholders' Equity

Stockholders' equity at December 25, 1992 increased 20% to $4.57 billion from $3.82 billion at year-end 1991. The 1992 increase primarily resulted from net earnings, less common and preferred dividends declared by the Corporation.

The Corporation granted a total of approximately .8 million shares of common stock during 1992 to certain employees under the Long-Term Incentive Compensation Plan and Equity Capital Accumulation Plan.

In 1992, the Corporation repurchased approximately .7 million shares of common stock at an average cost of $53.50 per share to meet share requirements under the Employee Stock Purchase Plan and an additional 4.6 million shares at an average price of $48.04 per share for other employee benefit plans. The Corporation also repurchased or redeemed 117 shares of Remarketed Preferred℠ stock at a price of $100,000 per share.

At December 25, 1992, total common shares outstanding, excluding the unallocated Employee Stock Ownership Plan ("ESOP") reversion common shares, amounted to 103.6 million, an increase of approximately 1% from the 102.7 million common shares outstanding at year-end 1991. Including unallocated ESOP shares, total outstanding common shares amounted to 109.2 million at December 25, 1992. Total outstanding common shares and commitments for shares related to employee benefit plans approximated 158.0 million at December 25, 1992.

Highly Leveraged Transactions And Non-Investment Grade Holdings

In conjunction with its investment and merchant banking activities, the Corporation provides financing and advisory services to, and invests in, companies entering into leveraged transactions. The Corporation has been less active in this area than in prior years; financing is extended on a more select and limited basis. Examples of leveraged transactions may include leveraged buyouts, recapitalizations, and mergers and acquisitions. The Corporation provides extensions of credit to leveraged companies in the form of senior term and subordinated debt, as well as bridge financing. Loans to highly leveraged companies are carried at unpaid principal balances less a reserve for estimated losses. At December 25, 1992, there were no bridge loans outstanding.

At December 25, 1992, the Corporation held direct equity investments in leveraged companies, interests in partnerships that invest in leveraged transactions, and non-investment grade securities. Direct equity investments are carried at the lower of cost or estimated future net realizable value. In the normal course of business, the Corporation trades and holds non-investment grade securities in connection with its market making activities. The Corporation's insurance subsidiaries hold non-investment grade securities which closely match the duration of its policyholder liabilities. For purposes of this discussion, non-investment grade securities have been defined as debt and preferred equity securities rated by Standard and Poor's as BB+ or lower and by Moody's as Bal or lower (or equivalent ratings for other instruments and non-U.S. securities), sovereign debt issued by less developed countries, amounts due under swap and derivative contracts from non-investment grade counterparties as well as non-rated securities which, in the opinion of management, are non-investment grade. Trading inventories are carried at fair value, while investments of insurance subsidiaries are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is adjusted.

The Corporation has a co-investment arrangement to enter into direct equity investments. The Corporation also has committed to participate in limited partnerships that invest in leveraged transactions.

A summary of the Corporation's highly leveraged transactions and non-investment grade holdings follows:

(Dollars in Millions)	1992	1991	1990
Loans (net of allowance for loan losses) *(a)*	$ 822	$1,081	$968
Bridge loans	–	79	132
Equity investments *(b)*	360	350	285
Partnership interests	120	97	97
Non-investment grade trading inventories	1,723	978	391
Non-investment grade commitments for securities sold but not yet purchased	209	150	126
Non-investment grade investments of insurance subsidiaries	409	544	571
Additional commitments to invest in partnerships	$42	$ 18	$ 18
Additional co-investment commitments	89	185	231
Unutilized revolving lines of credit and other lending commitments	75	67	66
Percentage of non-investment grade holdings:			
Non-investment grade insurance investments/total insurance investments	4.5	5.6	6.6
Non-investment grade trading positions/aggregate consolidated trading positions (i.e., the sum of long and short positions)	4.2	3.3	2.2

(a) Provided to 50, 55 and 54 medium-sized companies in 1992, 1991 and 1990, respectively.
(b) Invested in approximately 100 enterprises in each year.

At December 25, 1992, non-investment grade holdings totaling $161 million related to a single issuer, with no one industry sector exceeding 13% of total non-investment grade positions. Additionally, the Corporation held an aggregate carrying value of $194 million in securities of issuers who were in various stages of bankruptcy proceedings or in default. Approximately 58% of this amount resulted from the Corporation's market-making activities.

The Corporation's involvement in highly leveraged transactions and non-investment grade securities is subject to risks related to the creditworthiness of the issuers and the liquidity of the market for such securities, in addition to the usual risks associated with investing, extending credit, underwriting and trading investment grade instruments. The specific components and overall level of highly leveraged and non-investment grade positions may vary significantly from period to period as a result of inventory turnover, investment sales and asset redeployment. The Corporation continuously monitors credit risk and market exposure by individual issuer and industry concentration. In addition, valuation policies provide for recognition of market liquidity, as well as the trading pattern of specific securities.

CASH FLOWS

Total cash and cash equivalents increased $178 million in 1992 compared with decreases of $713 million and $265 million in 1991 and 1990, respectively.

In 1992 and 1991, cash provided by financing activities was used for operating and investing activities, while in 1990, cash provided from operating activities was used primarily to repay short-term obligations and for investing activities.

Cash used for operating activities totaled $5.2 billion in 1992 primarily reflecting increases in operating assets and liabilities consistent with the level of business activity. Increases in trading inventory levels of $6.8 billion, customer receivables of $2.5 billion, securities borrowed of $1.7 billion and reductions in insurance liabilities of $1.2 billion were partially offset by increases in commitments for securities sold but not yet purchased of $5.0 billion. Non-cash charges aggregating $1.8 billion were included in 1992 net earnings.

Cash used for operating activities in 1991 was $8.6 billion. Volume-related growth in trading inventories of $7.6 billion, securities borrowed of $4.1 billion and other receivables of $2.8 billion were partially offset by increases in commitments for securities sold but not yet purchased and customer liabilities totaling $3.4 billion and $1.3 billion, respectively. In 1991, non-cash charges included in net earnings were $1.7 billion. Cash provided by operating activities in 1990 was $3.3 billion as increases in operating liabilities of $5.3 billion were partially offset by increases in trading inventories of $1.6 billion and segregated cash of $1.7 billion. In 1990, non-cash charges included in net earnings were $1.4 billion.

In 1992, the Corporation used $50 million for investing activities primarily reflecting net purchases in both other investments and property, leasehold improvements and equipment. The aggregate increase of $650 million in these two investment activities was offset by net proceeds from maturities and net sales of insurance investments totaling $600 million. Cash used for investing in 1991 and 1990 principally represented net purchases of investments by the Corporation's insurance subsidiaries of $1.0 billion and $1.1 billion, respectively.

Financing activities provided the Corporation with $5.4 billion of cash in 1992. Proceeds from net short-term funding activities were $2.8 billion, while $2.9 billion was generated from net long-term borrowing activities. (See Note to Consolidated Financial Statements on "Long-Term Borrowings"). These funds were used to finance the growth in the Corporation's balance sheet.

In 1991, $9.4 billion was provided by financing activities reflecting increases in repurchase agreements net of resale agreements, and commercial paper and other short-term borrowings of $7.3 billion and $.8 billion, respectively. In 1990, the Corporation used $2.4 billion to repay various short and long-term obligations.

NEW ACCOUNTING DEVELOPMENTS

Balance Sheet Netting of Unrealized Gains and Losses for Off-Balance-Sheet Transactions

Consistent with industry practice, the Corporation presents unrealized gains and losses for off-balance-sheet

financial instruments, such as swaps, derivatives, options and foreign exchange contracts, net on the balance sheet. Beginning in 1994, Financial Accounting Standards Board ("FASB") Interpretation 39, *Offsetting of Amounts Related to Certain Contracts* will require the Corporation to gross up the unrealized gains as assets, and unrealized losses as liabilities for balance sheet presentation. Netting will be permitted only when a legal right of offset exists with the same counterparty under a master netting arrangement. If this requirement had been in effect at December 25, 1992, assets and liabilities would have increased approximately $4.6 billion.

Accounting for Postemployment Benefits

In November 1992, the FASB issued Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Postemployment Benefits*. This pronouncement, effective in 1994, establishes accounting standards for employers who provide benefits to former or inactive employees after employment, but before retirement. These benefits include, but are not limited to, salary-continuation, disability related benefits including workers' compensation, and continuation of health care and life insurance benefits. The statement requires employers to accrue the obligations associated with service rendered to date for employee benefits accumulated or vested where payment is probable and can be reasonably estimated. The Corporation is currently in the process of determining the impact of this statement on its financial condition, although the effect is not expected to be material.

RISK MANAGEMENT

The Corporation operates in dynamic businesses that are subject to many risks which are continually monitored and evaluated in accordance with its corporate governance policies. The Corporation's management has developed procedures which require specific areas and units to assist in the identification, assessment and control of these risks. Senior management takes an active role in the oversight of the risk management process.

Risk management is a decentralized process with centralized oversight. Managing risk begins with each trading desk. It involves constant communication, judgment and knowledge of specialized products and markets. The Corporation incurs risk associated with its market making and underwriting activities. To mitigate risk, the Corporation uses risk management techniques such as hedging trading positions, establishing trading limits, monitoring concentrations in any product, evaluating counterparty credit quality, and revenue diversity.

Determining proper asset and liability valuations as well as establishing detailed funding and liquidity objectives are also essential. The Corporation performs oversight reviews using independent risk management, credit, finance, internal audit and compliance units, each critical to managing risk.

To monitor risks associated with assets and liabilities, the Corporation has established a Reserve Committee of Executive Management ("Reserve Committee") composed of business unit, legal, credit, finance, internal audit, risk management and operations management personnel. Finance personnel, who report through the Controller to the Chief Financial Officer, work closely with business managers to establish appropriate levels of reserves commensurate with business risks and activities. The Reserve Committee meets monthly to review current market conditions, and act on specific issues brought to its attention by finance and business personnel.

Trading inventories are monitored on a global level for aging and concentrations in specific issues and issuers. The Controller's division independently reviews the pricing of trading securities. For contractual arrangements (e.g., swaps, forwards, etc.) formula-driven pricing is independently reviewed by finance personnel. Any specific issues requiring action are brought to the attention of trading management and, as appropriate, the Reserve Committee. The Corporation has established policies and procedures for recognizing provisions for loss and utilization of reserves which consider historical experience and current business conditions.

The Internal Audit and Compliance Units provide oversight functions. Internal Audit, which reports to the Audit and Finance Committee of the Board of Directors, provides management with an independent assessment of the Corporation's operations and control environment through reviews of business and operational areas.

The Compliance Unit establishes procedures to see that management's policies encompassing conduct, ethics and business practices are followed, and external regulatory requirements are strictly enforced. Compliance reports directly to the General Counsel. Adherence with corporate policy is accomplished by conducting education programs, monitoring the Corporation's businesses, evaluating supervisory procedures, and recommending internal disciplinary action when necessary. The Corporation's reputation and assets are protected through increased training and awareness which emphasizes protection of clients' interests and preservation of the Corporation's integrity.

Market Risk

The Corporation's trading activities are primarily client order-flow driven rather than proprietary, with hedging transactions executed where appropriate. This strategy helps reduce volatility in principal transactions revenues.

Risk Management monitors the Corporation's exposure to losses in the value of its trading inventory resulting from changes in the market environment. Inventory values are affected by changes in interest rates and credit spreads, currency fluctuations, and market volatility and liquidity. Risk Management is headed by a Senior Vice President, who is a member of the Executive Management Committee and reports directly to the President and Chief Executive Officer. This group sets and monitors all trading limits, actively monitors trading and inventory exposures, approves new products in conjunction with the Corporation's new product review

process, monitors product performance, and has the authority to require reductions in specific trading desk exposures or to veto proposed transactions.

Risk Management is organized along product lines with independent professionals responsible for maintaining daily contact with specific trading areas. On-line trading systems and complementary risk monitoring systems allow these professionals to track established limit levels and exposures. Certain classes of transactions are automatically subject to prior approval from Risk Management. These include new financial products, proposed equity, emerging markets, and high-yield underwritings, and bridge loans.

Trading areas may execute transactions only within their product authority and limits, which are customized for each product. Existing trading positions are regularly compared with established limits. In addition to Risk Management establishing trading limits, individual product areas have established their own more specific trading limits.

Risk Management information systems compare established trading limits with actual positions to determine the exposure to the Corporation. Trading systems are designed to assist traders in mitigating market and other risks prevalent in trading. Risk Management can also access trading systems to allow for monitoring of positions and for performing computerized analytics on various market situations and conditions.

Credit Risk

Credit risk, the risk that a counterparty will fail to perform under its contractual commitments, is actively managed by Corporate Credit. Corporate Credit is headed by a Senior Vice President who reports directly to the Chief Financial Officer.

Corporate Credit is centralized and organized geographically, and within each region, along industry lines. Credit officers perform credit analysis, set credit limits by country and by counterparty, approve specific transactions, establish credit reserves, actively manage credit exposures, and participate in the new product review process. Credit analysis, in many cases, is enhanced by face-to-face due diligence meetings with counterparties. Many types of transactions, including derivatives, are reviewed and subjected to prior approval from Corporate Credit.

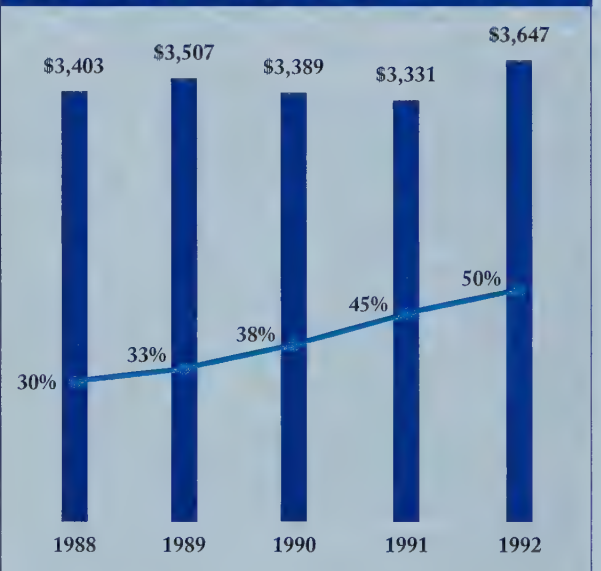
Within Corporate Credit, prescribed levels of authority have been established for approval of standard transactions. Required authority levels are governed by the counterparty's credit quality, as well as the maturity and potential risk of the transaction. Transactions which exceed prescribed levels must be approved by the Credit Committee, which is composed of Senior Credit Officers and the Chief Credit Officer.

The credit information system aggregates credit exposure to each counterparty and its various legal entities. It is the repository for overall counterparty limits, specific product limits and limit expiration dates. Detailed information on firmwide inventory positions and transactions executed, including current and potential credit exposure, is updated daily and compared with limits. Collateral, which reduces the Corporation's credit exposure, is obtained as needed and tracked on the credit system. This system enables Corporate Credit to monitor counterparty, product, industry, country, and credit quality concentrations.

Concentration Risk

Concentration risk, the risk that the Corporation's businesses will be dependent upon a single source of revenue, product or market, is periodically reviewed as part of the Corporation's ongoing strategic and business planning process. The Corporation has diversified its revenue sources and continues to grow fee-based businesses, to ensure that it is not dependent on a single financial product, customer group or market to generate revenues.

FEE-BASED REVENUES AS A PERCENTAGE OF FIXED AND SEMI-FIXED EXPENSES *(In Millions)*



Fee-based revenues include principally, asset management and custodial fees, portfolio and partnership management fees, and net margin interest.

Operational Risk

Operational risk focuses on the Corporation's ability to accumulate, process and communicate information necessary to conduct business in a global market environment. These risks are monitored on both a local and centralized basis. Information systems provide operational risk assessments on transactions in major markets. This technology allows the Corporation to promptly respond to changing market conditions worldwide. Exception reports are also used to manage operational risk, highlight reconciliation issues and enable the Corporation to identify instances where additional collateral is required. These reports also help identify potential business risk exposures and promote compliance with both internal management policies and regulatory requirements. Operations personnel who are responsible for entering trades, report to operations or business managers, not to the traders. Operations personnel provide support and control for trading, clearance and settlement activities, and perform custodial functions for customer and proprietary assets. Central to management of its operational risks, the Corporation maintains backup facilities worldwide.

Statements of Consolidated Earnings

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1992	1991	1990
Revenues			
Commissions	$ 2,399,686	$ 2,137,516	$ 1,756,858
Interest and dividends	5,806,710	5,761,061	5,944,706
Principal transactions	2,146,519	1,893,725	1,441,431
Investment banking	1,484,067	1,175,992	795,444
Asset management and custodial fees	859,031	774,089	673,539
Other	732,278	620,462	538,838
Total Revenues	13,428,291	12,362,845	11,150,816
Interest Expense	4,835,267	5,106,344	5,363,900
Net Revenues	8,593,024	7,256,501	5,786,916
Non-Interest Expenses			
Compensation and benefits	4,364,454	3,867,849	3,077,485
Occupancy	477,754	473,562	519,156
Communications and equipment rental	355,876	348,969	365,529
Depreciation and amortization	281,228	276,125	289,361
Brokerage, clearing and exchange fees	292,789	249,861	237,618
Advertising and market development	301,146	249,844	225,712
Professional fees	256,887	235,344	233,565
Other	641,501	537,529	556,162
Total Non-Interest Expenses	6,971,635	6,239,083	5,504,588
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	1,621,389	1,017,418	282,328
Income tax expense	668,984	321,301	90,472
Earnings Before Cumulative Effect of Changes in Accounting Principles	952,405	696,117	191,856
Cumulative Effect of Changes in Accounting Principles (net of $55,291 applicable income taxes)	(58,580)	–	–
Net Earnings	$ 893,825	$ 696,117	$ 191,856
Net Earnings Applicable to Common Stockholders	$ 887,486	$ 678,392	$ 167,932
Primary Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 8.36	$ 6.02	$ 1.59
Cumulative Effect of Changes in Accounting Principles	(.52)	–	–
Net Earnings	$ 7.84	$ 6.02	$ 1.59
Fully Diluted Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 8.34	$ 5.90	$ 1.59
Cumulative Effect of Changes in Accounting Principles	(.52)	–	–
Net Earnings	$ 7.82	$ 5.90	$ 1.59

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Amounts)	*December 25,* 1992	*December 27,* 1991
Assets		
Cash and cash equivalents	$ 1,251,572	$ 1,073,924
Cash segregated and securities owned on deposit for regulatory and other purposes	3,424,711	3,354,591
Trading inventories		
Corporate debt and contractual agreements	10,113,079	7,509,724
Mortgages and mortgage-backed	5,803,322	4,579,132
U.S. Governments and agencies	4,937,272	4,815,445
Non-U.S. Governments and agencies	2,605,337	2,292,114
Money markets	3,977,737	2,679,726
Equities	3,096,883	2,284,544
Municipals	1,135,601	747,747
Total	31,669,231	24,908,432
Resale agreements	25,002,230	15,343,579
Securities borrowed	13,565,803	11,831,715
Receivables		
Customers *(net of allowance for doubtful accounts of $31,230 in 1992 and $43,291 in 1991)*	10,480,248	7,967,765
Brokers and dealers	3,536,615	3,659,168
Interest and other	1,956,091	1,953,680
Total	15,972,954	13,580,613
Investments of insurance subsidiaries	9,052,839	9,666,952
Loans, notes and mortgages (net of allowance for loan losses of $218,960 in 1992 and $251,917 in 1991)	2,542,760	2,318,971
Other investments	1,803,156	1,232,161
Property, leasehold improvements and equipment (net of accumulated depreciation and amortization of $1,459,020 in 1992 and $1,335,134 in 1991)	1,409,115	1,559,097
Other assets	1,329,802	1,389,308
Total Assets	$107,024,173	$86,259,343

See Notes to Consolidated Financial Statements

	December 25, 1992	December 27, 1991
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$ 32,410,407	$24,522,275
Commercial paper and other short-term borrowings	18,769,123	14,175,269
Commitments for securities sold but not yet purchased		
U.S. Governments and agencies	9,633,129	5,785,869
Corporate debt and contractual agreements	2,634,299	2,016,647
Equities	2,121,974	1,682,271
Municipals	182,702	110,195
Total	14,572,104	9,594,982
Customers	10,705,134	10,735,474
Insurance	8,711,976	9,309,847
Brokers and dealers	1,585,068	1,582,737
Other liabilities and accrued interest	4,830,157	4,556,247
Long-term borrowings	10,871,100	7,964,424
Total Liabilities	102,455,069	82,441,255
Stockholders' Equity		
Preferred stock, par value $1.00 per share (Liquidation preference $100,000 per share); authorized: 25,000,000 shares; issued: 1992 and 1991–3,000 shares	3	3
Common stock, par value $1.33⅓ per share; authorized 200,000,000 shares; issued: 1992 and 1991–117,346,424 shares	156,461	156,461
Paid-in capital	1,537,927	1,456,070
Foreign currency translation adjustment	(6,129)	10,219
Retained earnings	3,570,980	2,803,392
Subtotal	5,259,242	4,426,145
Less:		
Treasury stock, at cost: 1992–8,145,306 shares 1991–7,807,141 shares	392,799	262,007
Unallocated ESOP shares, at cost: 1992–5,600,836 shares 1991–6,818,410 shares	176,426	214,780
Employee stock transactions	120,913	131,270
Total Stockholders' Equity	4,569,104	3,818,088
Total Liabilities and Stockholders' Equity	$107,024,173	$86,259,343

Statements of Changes in Consolidated Stockholders' Equity

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1992	1991	1990
Preferred Stock, par value $1.00			
Balance, beginning and end of year (3,000 shares in 1992, 1991 and 1990)	$ 3	$ 3	$ 3
Common Stock, par value $1.33 1/3			
Balance, beginning of year (117,346,424 shares in 1992; 117,345,300 in 1991; 117,345,247 in 1990)	$ 156,461	$ 156,460	$ 156,460
Issued:			
To debenture holders through conversion rights (1,124 shares in 1991; 53 shares in 1990)	–	1	–
Balance, end of year (117,346,424 shares in 1992 and 1991; 117,345,300 in 1990)	$ 156,461	$ 156,461	$ 156,460
Paid-In-Capital			
Balance, beginning of year	$1,456,070	$1,439,466	$1,488,928
Issuance of Common stock:			
To employees	(6,116)	(5,604)	(7,331)
Employee stock grants	56,326	5,583	(27,547)
To debenture holders through conversion rights	–	68	3
To ESOP (including allocation of shares in 1992, 1991 and 1990)	31,647	16,557	(14,587)
Balance, end of year	$1,537,927	$1,456,070	$1,439,466
Foreign Currency Translation Adjustment			
Balance, beginning of year	$ 10,219	$ 14,585	$ (14,809)
Translation adjustment*	(16,348)	(4,366)	29,394
Balance, end of year	$ (6,129)	$ 10,219	$ 14,585
Retained Earnings			
Balance, beginning of year	$2,803,392	$2,228,721	$2,164,502
Net earnings	893,825	696,117	191,856
Cash dividends declared:			
Remarketed Preferred stock	(6,745)	(18,080)	(23,920)
Common stock ($1.15 per share in 1992; $1.00 in 1991 and 1990)	(119,492)	(103,366)	(103,717)
Balance, end of year	$3,570,980	$2,803,392	$2,228,721
Treasury Stock, at cost			
Common:			
Balance, beginning of year (7,806,196 shares in 1992; 9,474,681 shares in 1991; 5,327,139 in 1990)	$ (167,507)	$ (211,669)	$ (144,333)
Treasury stock purchased (5,326,929 shares in 1992; 2,959,926 in 1991; 5,889,856 in 1990)	(259,526)	(116,612)	(121,553)
Issued out of treasury (net of reacquisitions)			
Employees (636,007 shares in 1992; 881,705 shares in 1991; 725,999 in 1990)	34,421	30,462	8,453
Employee stock grants (4,352,874 shares in 1992; 3,746,706 shares in 1991; 1,016,315 in 1990)	106,013	130,312	45,764
Balance, end of year (8,144,244 shares in 1992; 7,806,196 shares in 1991; 9,474,681 in 1990)	(286,599)	(167,507)	(211,669)
Preferred:			
Balance, beginning of year (945 shares in 1992)	(94,500)	–	–
Treasury stock purchased (117 shares in 1992; 945 shares in 1991)	(11,700)	(94,500)	–
Balance, end of year (1,062 shares in 1992; 945 in 1991)	(106,200)	(94,500)	–
Total Treasury Stock, end of year (8,145,306 in 1992; 7,807,141 in 1991; 9,474,681 in 1990)	$ (392,799)	$ (262,007)	$ (211,669)
Unallocated ESOP shares, at cost			
Balance, beginning of year (6,818,410 shares in 1992; 8,035,984 in 1991; 9,326,731 in 1990)	$ (214,780)	$ (253,133)	$ (293,792)
Allocation of shares to participants (1,217,574 shares in 1992 and 1991; 1,290,747 in 1990)	38,354	38,353	40,659
Balance, end of year (5,600,836 shares in 1992; 6,818,410 in 1991; 8,035,984 in 1990)	$ (176,426)	$ (214,780)	$ (253,133)
Employee Stock Transactions			
Balance, beginning of year	$ (131,270)	$ (149,003)	$ (205,616)
Net issuance of employee stock grants	(105,342)	(62,025)	(10,643)
Amortization of employee stock grants	109,908	74,127	56,819
Repayment of loans	5,791	5,631	10,437
Balance, end of year	$ (120,913)	$ (131,270)	$ (149,003)
Total Stockholders' Equity	$4,569,104	$3,818,088	$3,225,430

**Net of income tax benefit of $386 in 1992 and $1,074 in 1991, and income tax expense of $4,478 in 1990.*
See Notes to Consolidated Financial Statements

Statements of Consolidated Cash Flows

(Dollars in Thousands)	Year Ended Last Friday in December 1992	1991	1990
Cash Flows from Operating Activities:			
Net Earnings	$ 893,825	$ 696,117	$ 191,856
Noncash items included in earnings:			
Cumulative effect of changes in accounting principles	58,580	–	–
Depreciation and amortization	281,228	276,125	289,361
Insurance and annuity reserves	624,012	720,358	652,467
Other	805,149	678,636	422,117
(Increase) decrease in operating assets:			
Trading inventories	(6,760,799)	(7,624,596)	(1,562,620)
Cash segregated and securities owed on deposit for regulatory and other purposes	(70,120)	687,437	(1,733,556)
Securities borrowed	(1,734,088)	(4,145,484)	(537,884)
Customers	(2,520,074)	(813,377)	510,469
Other	(440,046)	(2,760,403)	(226,579)
Increase (decrease) in operating liabilities:			
Commitments for securities sold but not yet purchased	4,977,122	3,387,365	2,019,811
Customers	(30,340)	1,253,419	1,481,469
Insurance	(1,221,883)	52,152	369,292
Other	(43,309)	(1,003,972)	1,383,943
Cash (Used for) Provided by Operating Activities	(5,180,743)	(8,596,223)	3,260,146
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Maturities and sales of investments by insurance subsidiaries	3,904,587	4,537,265	1,823,038
Purchases of investments by insurance subsidiaries	(3,304,652)	(5,552,334)	(2,914,109)
Other investments and other assets	(518,389)	(338,926)	425,740
Property, leasehold improvements and equipment	(131,246)	(188,946)	(263,656)
Cash Used for Investing Activities	(49,700)	(1,542,941)	(928,987)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Repurchase agreements, net of resale agreements	(1,770,519)	7,318,966	(959,764)
Commercial paper and other short-term borrowings	4,593,854	841,211	(759,331)
Issuance and resale of long-term borrowings	6,773,739	6,395,992	4,285,224
Settlement and repurchases of long-term borrowings	(3,861,745)	(4,859,142)	(4,924,815)
Repurchases of Remarketed Preferred stock	(11,700)	(94,500)	–
Other common stock transactions	(189,301)	(54,772)	(109,404)
Dividends	(126,237)	(121,446)	(127,637)
Cash Provided by (Used for) Financing Activities	5,408,091	9,426,309	(2,595,727)
Increase (Decrease) in Cash and Cash Equivalents	177,648	(712,855)	(264,568)
Cash and Cash Equivalents, beginning of year	1,073,924	1,786,779	2,051,347
Cash and Cash Equivalents, end of year	$ 1,251,572	$ 1,073,924	$ 1,786,779

Income tax payments totaled $590,481 in 1992, $354,773 in 1991 and $115,734 in 1990.
Interest payments totaled $4,753,336 in 1992, $5,311,974 in 1991 and $4,626,461 in 1990.
See Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Merrill Lynch & Co., Inc. and all significant subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated. Certain limited classification and format changes have been implemented in the Consolidated Balance Sheets and Statements of Consolidated Cash Flows. Prior years' financial statements have been reclassified to conform to the 1992 presentation.

Securities Transactions

Trading inventories and commitments for securities sold but not yet purchased, including receivables and payables arising from contractual agreements for futures, forwards, options, interest rate and currency swaps, and other derivative products are recorded at fair value. Fair value is based on quoted market prices, pricing models (utilizing indicators of general market conditions or other such economic measurements) or determined by management based upon estimates of amounts to be realized upon settlement, assuming current market conditions and an orderly disposition over a reasonable period of time. Net unrealized gains and losses resulting from trading activities are reflected in earnings of the current period. Trading inventories, commitments for securities sold but not yet purchased, commission revenues and related expenses are recorded on a trade date basis.

The Corporation enters into when-issued and delayed delivery transactions. Unrealized gains and losses from these transactions are reflected in earnings of the current period.

Other investments include equity and long-term debt investments other than those held for sale in the normal course of business. Equity investment securities are carried at lower of cost or estimated net realizable value. Unrealized losses resulting from adjustments to carrying values are reflected in earnings of the current period.

Debt investment securities are carried at amortized cost unless a decline in value is deemed to be other than temporary, in which case the carrying value is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other than temporary, is reflected in earnings of the current period.

Repurchase and Resale Agreements

Repurchase and resale agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts, including accrued interest. The Corporation's policy is to take possession of securities purchased under resale agreements. This collateral is valued daily with additional collateral, as required through contractual provisions, obtained when appropriate to ensure that the market value of the underlying collateral remains sufficient.

Income Taxes

Merrill Lynch & Co., Inc. and certain of its wholly owned subsidiaries file a consolidated Federal income tax return. The Corporation uses the asset and liability method in providing income taxes on all transactions that have been recognized in the financial statements, in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). SFAS No. 109 was adopted by the Corporation as of the first quarter 1992. (See Note to Consolidated Financial Statements on Accounting Changes.) The asset and liability method provides that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax benefits, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The consolidated financial statements for years prior to 1992 reflect income taxes under the liability method, in accordance with Statement of Financial Accounting Standards No. 96. The Corporation does not provide for deferred income taxes on the excess of the amount for financial reporting over the tax basis of its investments in foreign subsidiaries that are considered to be permanent in duration.

Property, Leasehold Improvements and Equipment

Property (excluding land), leasehold improvements and equipment are reported at historical cost, net of accumulated depreciation and amortization. Land is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Property and equipment are depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Maintenance and repair costs are expensed as incurred.

Facilities-related depreciation and amortization expense was $130,448, $130,286 and $124,170 in 1992, 1991 and 1990, respectively. Non-facilities-related depreciation and amortization expense for 1992, 1991 and 1990 was $150,780, $145,839 and $165,191, respectively.

Insurance

Insurance liabilities represent future benefits payable related to annuity and interest-sensitive life contracts and reflect deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Interest crediting rates range from 2.2% to 10.0%. Liabilities for unpaid claims and claim adjustment expenses are based on the experience of the Corporation. Policy deposits are recorded as insurance liabilities when received. Policy withdrawal, maintenance and other fees are recognized as revenue when earned.

Substantially all of the investments of insurance subsidiaries are expected to be held to maturity. These investments consist primarily of debt securities which are carried at amortized cost, unless a decline in value is deemed other than temporary, in which case the carrying value is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other than temporary is reflected in current earnings.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been

deferred to the extent such costs are deemed recoverable from future income. Deferred costs are amortized, based on actuarial factors, over the lives of the contracts in proportion to the estimated gross profit expected to be realized for each group of contracts.

Separate account assets and liabilities represent segregated funds administered and invested by insurance subsidiaries of the Corporation for purposes of funding variable annuity and variable life contracts. Subsidiaries of the Corporation receive various administrative and advisory fees for managing such funds. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with the Corporation's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of the Corporation.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated at year-end currency exchange rates, while revenues and expenses are translated at average currency exchange rates during the year. Adjustments that result from translating foreign currency financial statements, net of hedging gains or losses and related tax effects, are reported as a separate component of stockholders' equity. Gains or losses from foreign currency transactions are included in earnings of the current period.

Cash Flows

For purposes of the Statements of Consolidated Cash Flows, the Corporation defines cash equivalents as short-term, highly liquid floating rate securities and interest-earning deposits with original maturities of less than 90 days.

Interest Expense

Interest expense includes payments in lieu of dividends of $12,556, $32,520 and $20,793 in 1992, 1991 and 1990, respectively.

OTHER SIGNIFICANT EVENTS

Accounting Changes

During the fourth quarter of 1992, the Corporation adopted Statement of Financial Accounting Standards No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ("SFAS No. 106") and SFAS No. 109, *Accounting for Income Taxes*. These accounting changes were effective as of the 1992 first quarter. Quarterly information for 1992 has been restated to reflect the impact of these pronouncements.

SFAS No. 106 requires accrual accounting for postretirement benefits, primarily health care and life insurance costs. Prior to 1992, the Corporation accounted for such costs on a "pay-as-you-go" basis. The cumulative effect of this change in accounting principle, reported in the Statements of Consolidated Earnings, resulted in a charge of $76,354 (net of related Federal, state and local income tax benefits of $55,291). The adoption of SFAS No. 106 increased the current year's expense by $8,500.

SFAS No. 109 supersedes SFAS No. 96 and changes the conditions under which deferred tax assets may be recognized. The cumulative effect of this change in accounting principle reported in the Statements of Consolidated Earnings was a credit of $17,774, and related principally to recognition of deferred state and local tax benefits.

Insurance Transactions

At December 31, 1990, under an indemnity reinsurance and assumption agreement with Monarch Life Insurance Company ("Monarch Life"), the Corporation's insurance subsidiaries reinsured all the variable life insurance policies issued by Monarch Life and sold through the Corporation's retail network. During 1991, separate account assets and related liabilities approximating $3,040,000 were transferred to such subsidiaries under assumption reinsurance transactions.

Under the aforementioned agreement, the Corporation paid cumulative ceding commissions totaling $243,215 to Monarch Life. The agreement provides for additional contingent ceding commission payments to Monarch Life based upon the lapse rate through 1995 and mortality experience through 2000. In May 1992, the servicing of the reinsured policies was transferred to a subsidiary of the Corporation.

FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires companies to report the fair value of certain financial instruments. Approximately 90% of the Corporation's financial instruments are carried at fair value or amounts which approximate fair value.

Assets, including cash and cash equivalents, cash segregated and securities owned on deposit for regulatory and other purposes, resale agreements, securities borrowed, and receivables are carried at amounts which approximate fair value.

Trading inventories and commitments for securities sold but not yet purchased are carried at fair value. Fair value for these instruments is estimated using market quotations for traded instruments, market quotations of similar traded instruments and pricing models. Market quotations for traded instruments are obtained from various sources, including the major securities exchanges and dealers. Pricing models which consider the time value and volatility of underlying financial instruments are used to value swaps, derivatives and other contractual agreements.

The fair value of insurance subsidiaries' investments is generally estimated by market quotes obtained from exchanges for listed securities or dealers for unlisted securities. At December 25, 1992, the fair value of these investments was $9,337,816.

In connection with its merchant banking activities, the Corporation holds certain equity instruments including partnership interests (included in other investments), and loans consisting primarily of senior and subordinated debt. Fair value for equity instruments is estimated using a number of methods including earnings multiples, cash flow analyses, review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., minority ownership, consent of other investors) which may limit the Corporation's

ability to realize currently the estimated fair value. Accordingly, the Corporation's current estimate of fair value and its ultimate realization on these instruments may differ. Loans made in connection with merchant banking activities are carried at unpaid principal balances less a reserve for estimated losses. Fair value is estimated using discounted cash flows. The aggregate carrying and fair values of the Corporation's merchant banking equity and debt portfolio at December 25, 1992 were $1,179,767 and $1,416,747, respectively.

The Corporation's estimate of fair value for its loans, notes and mortgages (excluding loans made in connection with merchant banking) is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans adjusted for credit risk and other individual loan characteristics. For the Corporation's floating rate loan receivables, carrying value approximates fair value. At December 25, 1992, the carrying and fair values of loans, notes and mortgages (excluding the merchant banking loans valued above) were $1,746,333 and $1,756,706, respectively.

Also included in other investments are U.S. Government and agencies securities held by subsidiaries of the Corporation to meet rating agency and other requirements. The fair value of these investment securities is estimated using market quotations and approximates carrying value.

Liabilities, including repurchase agreements, commercial paper and other short-term borrowings, customers, brokers and dealers, and other liabilities and accrued interest are carried at amounts which approximate fair value.

Certain insurance liabilities are exempt from the provisions of SFAS No. 107. For insurance liabilities meeting the requirements (e.g., single and flexible premium deferred annuities), fair value is estimated based upon the greater of the cash surrender value of the policy, or the projected cash surrender value at the end of the guarantee period, discounted at prevailing market rates. At December 25, 1992, the carrying and fair values of these insurance liabilities were $5,856,800 and $6,069,300, respectively.

For substantially all long-term borrowings, the Corporation enters into swap agreements to convert fixed interest rate payments into floating rate payments or to hedge foreign currency exposures. Fair value of these borrowings and related hedge instruments was estimated using current market prices and pricing models. At December 25, 1992, the fair value of these borrowings and related hedge instruments exceed their carrying value by $17,040.

INCOME TAXES

Income tax provisions (benefits) on earnings before the cumulative effect of changes in accounting principles consisted of:

		1992	1991	1990
Federal:	Current	$435,093	$218,013	$120,948
	Deferred	(59,007)	(51,774)	(63,851)
State and Local:	Current	252,498	127,961	13,781
	Deferred	(20,868)	(7,343)	12,658
Foreign:	Current	65,271	33,265	8,739
	Deferred	(4,003)	1,179	(1,803)
Total		$668,984	$321,301	$ 90,472

A reconciliation of the statutory Federal income tax to the Corporation's income tax provision for earnings before the cumulative effect of accounting changes follows:

	1992	1991	1990
Federal income tax at statutory rates	$551,272	$345,922	$95,992
State and local income taxes, net	152,876	79,607	17,450
Tax-exempt interest	(13,706)	(4,142)	(3,139)
Dividends received deduction	(23,730)	(13,378)	(22,539)
Foreign operations	5,636	12,370	19,229
Pension plan transaction	14,885	20,713	11,205
Alternative minimum tax, net of credits recognized	–	(77,508)	27,403
Utilization of net operating loss tax benefits	–	(42,588)	(63,419)
Adjustments to deferred taxes on leveraged leases	(1,196)	(3,533)	9,984
Other, net	(17,053)	3,838	(1,694)
Total	$668,984	$321,301	$90,472

For financial reporting purposes, at December 25, 1992, the Corporation had no unrecognized net operating loss or alternative minimum tax benefit carryforwards.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. These temporary differences result in taxable or deductible amounts in future years. At December 25, 1992, the Corporation had deferred tax assets and liabilities totaling $705,000 and $457,000, respectively. Deferred tax assets consist principally of valuation and liability reserves of $442,000 and deferred compensation of $114,000. Deferred tax liabilities consist primarily of accelerated tax depreciation of $138,000, lease transactions of $141,000 and unrealized gains on trading inventories of $41,000. During 1992, $114,487 of net income tax benefits were allocated to stockholders' equity related to employee compensation transactions.

Under SFAS No. 96, in 1991 the deferred Federal tax provision included tax benefits from both deferred compensation plans of $(26,000) and the divestiture of a subsidiary of $(28,000). In 1990, the principal items included net recognized tax benefits of $(36,000) and valuation and liability reserves of $(30,000).

Undistributed earnings of foreign subsidiaries, which could be subject to additional income taxes if repatriated, amounted to approximately $472,000 at December 25, 1992. No deferred Federal income taxes have been provided for the undistributed earnings as those earnings have been, and will continue to be, reinvested in the Corporation's foreign operations. It is also not practicable to determine the hypothetical deferred tax liability that would relate to the undistributed earnings. The amount of foreign withholding tax that would be payable upon distribution is immaterial. Earnings (Loss) before income taxes includes approximately $130,250, $133,200 and $(8,800) of earnings (loss) attributable to foreign operations for the years 1992, 1991 and 1990, respectively.

Per Common Share Computation

In 1992, the Corporation computed its earnings per common share calculation using the modified treasury stock method ("modified method") in accordance with Accounting Principles Board Opinion No. 15. The modified method is used when the number of shares obtainable upon exercise of outstanding options, warrants and their equivalents exceed 20% of the Corporation's outstanding common stock.

Under this method, all options, warrants and their equivalents are assumed exercised (whether dilutive or antidilutive) with the aggregate proceeds obtained used to repurchase up to 20% of the Corporation's outstanding common stock, subject to certain limitations. If the combined effect of the assumed exercise is dilutive, all options, warrants and their equivalents are included in the computation.

In 1991 and 1990, the Corporation computed earnings per common share using the treasury stock method. The treasury stock method recognizes that any proceeds obtainable upon exercise of dilutive options, warrants or their equivalents would be used to repurchase the Corporation's outstanding common stock.

Primary earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements of $6,339, $17,725 and $23,924 for 1992, 1991 and 1990, respectively, by the weighted average number of common shares and common stock equivalents outstanding during each year. Shares of common stock issuable under various employee stock plans are considered common stock equivalents (incremental shares).

The weighted average number of common shares and incremental shares included in the primary and fully diluted per common share computations follows:

	1992	1991	1990
Primary:			
Weighted average common shares	103,865,000	102,377,000	102,610,000
Incremental shares	9,336,000	10,298,000	2,916,000
Total	113,201,000	112,675,000	105,526,000
Fully Diluted:			
Weighted average common shares	103,865,000	102,377,000	102,610,000
Incremental shares	9,562,000	12,581,000	2,916,000
Total	113,427,000	114,958,000	105,526,000

Preferred Stock

The Corporation is authorized to issue 25,000,000 shares of $1.00 par value per share preferred stock of which 3,000 shares of Remarketed Preferred℠ ("RP®") stock, Series C, were issued at $100,000 per share and 1,938 are outstanding.

At the end of each dividend period, the RP stock, Series C, is subject to a remarketing process. As part of the remarketing process, both the dividend period and the dividend rate may be adjusted for periods generally of seven and 49 days with a maximum dividend rate dependent on the credit rating assigned to the RP shares. Dividends on RP stock, Series C, are cumulative and payable when declared by the authority of the Corporation's Board of Directors. Dividend rates in effect during 1992 on RP stock, Series C, ranged from 2.55% to 4.875% per annum. The maximum dividend rate on the RP stock, Series C, ranges from 115% to 250% of the "AA" Composite Commercial Paper Rate based on the Moody's and Standard and Poor's ratings on the date on which the dividend rate is reset. Total dividends declared on RP shares in 1992 were $6,745. Generally, the Corporation has the option to redeem the RP stock, Series C shares, in whole or in part, at $100,000 per share plus accumulated dividends on any dividend payment date.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a subsidiary of the Corporation, acts as one of the remarketing agents for the RP stock and may occasionally acquire a temporary position in the RP stock in its capacity as a market maker. At December 25, 1992, no material amount of RP stock was held by MLPF&S for the purpose of resale.

The Corporation's Stockholder Rights Plan provides for the distribution of preferred stock purchase rights to common stockholders which separate from the common stock ten days following: (a) an announcement of an acquisition by a person or group ("acquiring party") of 20% or more of the outstanding common shares of the Corporation; or (b) the commencement of a tender offer or exchange offer for 30% or more of the common shares. One right attached to each share of common stock outstanding as of January 8, 1988 and attaches to all shares issued thereafter. Each right entitles the holder to purchase one one-hundredth of a share (a "unit") of

Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $100 per unit. The units of preferred stock are nonredeemable, voting and are entitled to certain preferential dividend rights. The exercise price and the number of units issuable are subject to adjustment to prevent dilution.

If, after the rights have been distributed, the Corporation is a party to a business combination or other specifically defined transaction, each right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, units of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the right. The rights expire December 16, 1997 and are redeemable (at the option of a majority of the independent directors of the Corporation) at $.01 per right at any time until the tenth day following an announcement of the acquisition of 20% or more of the Corporation's common shares.

INVESTMENTS OF INSURANCE SUBSIDIARIES

Information regarding investments of insurance subsidiaries as of December 25, 1992 and December 27, 1991 follows:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1992				
Corporate securities	$3,510,703	$153,911	$(10,006)	$3,654,608
Mortgage-backed securities	3,704,475	153,543	(14,867)	3,843,151
Other debt securities	202,870	4,121	(3,312)	203,679
Total Debt Securities	7,418,048	311,575	(28,185)	7,701,438
Policy loans and other	1,634,791	1,587	–	1,636,378
Total	$9,052,839	$313,162	$(28,185)	$9,337,816
1991				
Corporate securities	$3,682,328	$158,429	$(25,125)	$3,815,632
Mortgage-backed securities	4,377,566	189,575	(4,186)	4,562,955
Other debt securities	60,730	4,322	–	65,052
Total Debt Securities	8,120,624	352,326	(29,311)	8,443,639
Policy loans and other	1,546,328	1,410	(4,853)	1,542,885
Total	$9,666,952	$353,736	$(34,164)	$9,986,524

The carrying value and estimated fair value of debt securities at December 25, 1992, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Maturities	Carrying Value	Estimated Fair Value
Due in one year or less	$ 198,113	$ 203,065
Due after one year through five years	1,252,313	1,293,528
Due after five years through ten years	1,420,327	1,484,783
Due after ten years	842,820	876,911
Subtotal	3,713,573	3,858,287
Mortgage-backed securities	3,704,475	3,843,151
Total	$7,418,048	$7,701,438

Proceeds from sales of debt securities during 1992 were $1,984,129 with gross gains of $57,386 and gross losses of $28,938 realized on these sales.

COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS

At December 25, 1992 and December 27, 1991, commercial paper totaled $9,578,612 and $7,682,897, respectively. The weighted average interest rates on these borrowings were 3.82% in 1992 and 6.18% in 1991.

Other short-term borrowings at December 25, 1992 and December 27, 1991 are presented below:

	1992	1991
Demand and time deposits	$5,569,754	$3,659,336
Securities loaned	3,357,555	2,482,143
Bank loans and other	263,202	350,893
Total	$9,190,511	$6,492,372

LONG-TERM BORROWINGS

Long-term borrowings at December 25, 1992 and December 27, 1991 consisted of the following:

	1992	1991
*Senior Debt**		
U.S. Dollar denominated fixed-rate obligations due 1993 to 2019 at interest rates ranging from 5.25% to 12.125%	$5,459,230	$3,665,287
Foreign currency denominated fixed-rate obligations due 1994 to 2003 at interest rates ranging from 5.65% to 10.875%	856,175	695,124
U.S. Dollar denominated variable-rate obligations	217,794	814,519
U.S. Dollar denominated medium-term notes	4,239,638	2,677,540
Foreign currency denominated medium-term notes	98,263	111,954
Total	$10,871,100	$7,964,424

**Rates and maturities presented are as of December 25, 1992.*

Maturities of long-term borrowings at December 25, 1992 consisted of the following:

Maturities	Senior Debt
1993	$ 4,133,881
1994	1,683,603
1995	1,736,162
1996	394,807
1997	631,156
1998 and thereafter	2,291,491
Total	$10,871,100

Substantially all of the Corporation's fixed-rate long-term borrowings are swapped into floating interest rates. These swaps are used to hedge interest rate and foreign currency exposures related to the Corporation's long-term borrowings. Payments or receipts from these swaps are recognized as adjustments to interest over the life of the debt obligation.

As of December 25, 1992, floating interest rates were obtained on $6,248,370 of the Corporation's U.S. Dollar denominated fixed-rate obligations and all of its foreign currency denominated fixed-rate obligations. Foreign currency denominated fixed-rate obligations have been swapped into U.S. Dollar liabilities. The effective weighted average interest rate on fixed-rate obligations swapped into floating rate obligations was 4.01% in 1992. The Corporation's remaining fixed-rate long-term obligations totaling $67,035 had an effective weighted average interest rate of 9.56% in 1992.

The effective weighted average interest rate on the Corporation's U.S. Dollar denominated variable-rate obligations was 4.10% in 1992. Floating interest rates are generally based on variable rates such as the "AA" Commercial Paper Composite Rate, U.S. Treasury Bill rates, the London Interbank Offered Rate ("LIBOR") or the Federal Funds rate ("Fed Funds").

The effective weighted average interest rate on all medium-term notes was 4.44% in 1992. Maturities of medium-term notes can range from nine months to ten years from the date of issue.

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Pursuant to these provisions, long-term borrowings that mature in 1995 and thereafter may be redeemed at the earliest in 1993 and 1994 in the amounts of $23,750 and $199,326, respectively. Management believes, however, that a significant portion of such borrowings may remain outstanding beyond their earliest redemption date.

Subsequent to December 25, 1992 and through February 19, 1993, long-term borrowings, net of repayments and repurchases, increased in the amount of approximately $692,211.

Revolving Credit Agreements

The Corporation has obtained committed, unsecured revolving lines of credit aggregating $4,210,000 under agreements with two groups of banks. There have never been any borrowings under current or prior revolving credit agreements. The agreements contain covenants that require, among other things, that the Corporation maintain specified levels of net worth, as defined in the agreements, on the date of an advance. The details of these agreements for 1992 are presented below.

	1992	Maturity
Committed Unsecured Revolving Lines of Credit:		
International and Regional Banks	$3,035,000	1993*
Money Center Banks	1,175,000	1993**
Total	$4,210,000	

$1,030,000 matures in March 1993; $1,075,000 matures in July 1993; $930,000 matures in November 1993. At maturity, the Corporation may convert amounts then borrowed, if any, into term loans which would mature in March, July and November 1995, respectively.

***At maturity in July 1993, the Corporation may convert amounts then borrowed, if any, into a term loan which would mature in July 1995.*

Regulatory Requirements and Dividend Restrictions

MLPF&S, a registered broker/dealer, is subject to the Securities and Exchange Commission's ("SEC") Net Capital Rule. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit balances arising from customer transactions. At December 25, 1992, MLPF&S's regulatory net capital of $1,194,093 was 12% of aggregate debit balances, and its regulatory net capital in excess of the minimum required was $992,332.

In addition to amounts presented in the accompanying Consolidated Balance Sheets as cash segregated and securities owned on deposit for regulatory and other purposes, securities with a market value of $288,247, primarily collateralizing resale agreements, have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to the Reserve Formula requirements of SEC Rule 15c3-3.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government Securities and a subsidiary of the Corporation, is subject to the Capital Adequacy Rule of the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 25, 1992, MLGSI's liquid capital of $1,123,450 was 256% of its total market and credit risk, and liquid capital in excess of the minimum required was $597,054.

The Corporation's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 25, 1992, $814,030 representing 97% of the insurance subsidiaries' net assets, was unavailable for distribution to the Corporation. Over 40 other U.S. and non-U.S. subsidiaries are also subject to regulatory requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These regulatory restrictions may limit the amounts that these subsidiaries dividend or advance to the Corporation. At December 25, 1992, the restricted

net assets of such subsidiaries totaled $2,210,734. To satisfy rating agency standards, a subsidiary of the Corporation must also meet certain minimum capital requirements.

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock; and (b) the governing provisions of the Delaware General Corporation Law.

EMPLOYEE BENEFIT PLANS

The Corporation provides retirement benefits to employees worldwide through defined contribution plans, a group annuity contract and international defined benefit plans. The Corporation reserves the right to amend or terminate these plans at any time.

Defined Contribution Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("SIP"). The RAP, ESOP and SIP cover substantially all U.S. employees who have met the age and/or service requirements.

Contributions to the RAP are made in cash. Allocations of stock held in the ESOP and cash contributed to the RAP are made quarterly based on years of service, age and eligible compensation. Generally, only cash contributions are deductible for income tax purposes.

In 1989, the Corporation sold 12,170,735 shares of common stock to the ESOP trust for $383,378. The ESOP trust funded the acquisition with $313,378 of residual funds from a terminated defined benefit pension plan with the remainder funded through a loan of $70,000 from a subsidiary of the Corporation.

Shares held in the ESOP resulting from cash funding are being allocated to participants' accounts over a period of not more than eight years, ending in 1996. Shares held in the ESOP funded by the loan are allocated to participants' accounts as principal on the loan is repaid. The loan to the ESOP trust, due September 5, 1999, bears interest at 9.1% per annum, with principal and interest payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions. Interest incurred on the ESOP debt during 1992, 1991 and 1990 amounted to $5,119, $5,626 and $6,106, respectively. The 1992, 1991 and 1990 dividends on ESOP shares used for debt service amounted to $9,678, $9,705 and $13,927, respectively.

As of December 25, 1992, 4,347,677 shares were allocated to participant accounts since the inception of the ESOP. The unallocated portion of shares purchased with the residual funds of $176,426 from the terminated defined benefit pension plan, and the $52,688 outstanding loan to the ESOP trust, which is included in employee stock transactions, are included as reductions to stockholders' equity.

Employees can participate in the SIP by contributing, on a tax deferred basis, up to 15% of their eligible compensation but not more than the maximum annual amount allowed by law. The Corporation's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the SIP, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants.

Group Annuity Contract

In the U.S., the Corporation has purchased a group annuity contract from Metropolitan Life Insurance Company ("Metropolitan") to guarantee the payment of benefits vested under a defined benefit plan which was terminated in accordance with the applicable provisions of ERISA. At December 25, 1992, a substantial portion of the assets of Metropolitan supporting the annuity were invested in U.S. Government and agency securities. The Corporation, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of these annuity assets.

International Defined Benefit Plans

Employees of certain non-U.S. subsidiaries participate in various local plans. These pension plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. The Corporation's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

Pension Plan Cost and Funded Status

Pension cost includes the following components:

	1992	1991	1990
Defined benefit plans[1]:			
Service cost: benefits earned during the year[2]	$ 11,333	$ 8,512	$ 8,982
Interest cost on projected benefit obligation	84,366	78,254	74,881
Actual return on plan assets	(107,549)	(189,527)	(24,825)
Deferral and amortization of unrecognized items	21,441	107,004	(57,174)
Total defined benefit plan cost	9,591	4,243	1,864
Defined contribution plan cost	133,264	111,904	112,137
Total pension cost[3]	$ 142,855	$ 116,147	$114,001

[1] *The following actuarial assumptions were used in calculating the defined benefit cost (credit) and benefit obligations. Rates as of the beginning of the year are:*

	1993	1992	1991
Discount rate	7.9%	8.0%	9.0%
Rate of compensation increase (not applicable to terminated plan)	6.3%	7.5%	7.8%
Expected long-term rate of return on plan assets	7.6%	7.6%	8.5%

[2] *The Corporation calculated service cost using the projected unit credit method based on years of service to date.*

[3] *Total pension cost excludes supplemental retirement and other benefit plan costs.*

The funded status of the defined benefit plans (including the terminated plan) was as follows:

	1992		1991	
	Pension plans in which:		Pension plans in which:	
	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets
Actuarial present value of:				
Vested accumulated benefit obligation	$(1,060,598)	$(27,478)	$(1,006,864)	$(13,767)
Non-vested accumulated benefit obligation	(3,523)	(3,663)	(5,296)	(1,749)
Accumulated benefit obligation	(1,064,121)	(31,141)	(1,012,160)	(15,516)
Effect of assumed increase in compensation levels	(18,050)	(15,743)	(21,696)	(8,252)
Projected benefit obligation	(1,082,171)	(46,884)	(1,033,856)	(23,768)
Plan assets at fair value	1,191,834	13,162	1,131,209	–
Plan assets in excess of (less than) projected benefit obligation	109,663	(33,722)	97,353	(23,768)
Unrecognized net liability at transition	3,759	1,620	4,449	1,848
Unrecognized net loss (gain)	17,740	5,236	23,343	(342)
Unrecognized prior service cost	2,945	(1,178)	2,466	(47)
Prepaid (accrued) pension cost	$ 134,107	$(28,044)	$ 127,611	$(22,309)

Supplemental Retirement and Other Benefit Plans

The Corporation also has supplemental retirement and other benefit plans. The unfunded projected benefit obligation was $7,711 and $5,819 in 1992 and 1991, respectively. Supplemental retirement and other benefit plan costs were $1,305, $1,464 and $1,222 in 1992, 1991 and 1990, respectively.

Postretirement Benefits Other Than Pensions

The Corporation provides health and life insurance benefits to retired employees. The health care component is contributory, with retiree contributions adjusted periodically. The life insurance component is noncontributory. The accounting for health care anticipates future changes in cost-sharing provisions. The Corporation reserves the right to amend or terminate these programs at any time. Full-time employees of the Corporation become eligible for these benefits upon attainment of age 55 and completion of 10 years of service. In 1991 and 1990, the cost of these benefits were expensed as claims were paid and totaled $6,379 and $4,004, respectively.

In 1992, the Corporation adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*. Net periodic postretirement benefit expense for 1992 included the following components:

Service cost	$ 4,144
Interest cost on accumulated postretirement benefit obligation	10,293
Total	$14,437

At December 25, 1992 the accumulated benefit obligation and accrued liability was $140,121. Of this amount, $61,738, $37,600 and $40,783 were attributable to retirees, fully eligible participants and other active participants, respectively. The Corporation pays claims as incurred. As of December 25, 1992, the plan had not been funded.

Different health care cost trend rates were assumed for coverage to age 65. The trend rate assumed for 1993 was 14% (pre-65) and 11% (post-65). These rates were assumed to decrease gradually to 7% (pre-65) and 5% (post-65) in 2000 and thereafter. The assumed health care cost trend rate has a significant effect on the amounts reported above. Increasing the assumed trend rate by one percentage point per year would increase the accumulated postretirement benefit obligation as of December 25, 1992 by $18,636 and increase service and interest cost for 1992 by $2,180. The discount rate used was 8.0%.

EMPLOYEE STOCK PLANS

Employee Stock Purchase Plan

The Employee Stock Purchase Plan ("ESPP") allows eligible employees to invest from 1% to 10% of their eligible compensation, subject to certain limitations, in the Corporation's common stock at a purchase price equal to 85% of the fair market value of the stock on four quarterly investment dates. Stock purchases are generally made through authorized payroll deductions. Up to 12,500,000 shares of the Corporation's common stock have been authorized for issuance under the ESPP.

The activity in the ESPP for the two most recent plan years was as follows:

	ESPP Shares	
	1992	1991
Available, beginning of year	4,623,352	2,562,089
Authorized during the year	–	3,000,000
Purchased through plan	(665,958)	(938,737)
Available, end of year	3,957,394	4,623,352

Equity Capital Accumulation Plan

The Equity Capital Accumulation Plan ("ECAP") provides for grants for both Performance and Restricted Shares to senior management and other eligible employees who pay no cash consideration therefor. Upon grant, Restricted Shares become issued and outstanding shares of the Corporation's common stock and are subject to forfeiture during the established Restricted Period. A Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock and is subject to forfeiture during the established Performance Period. Performance Shares are payable 50% in cash and 50% in the Corporation's common stock. Payment of Restricted Shares and Performance Shares is contingent upon continued employment for a specified period of time and, with respect to Performance Shares, the achievement of specific performance goals. Up to 13,100,000 shares of the Corporation's common stock have been authorized for issuance under the ECAP. At December 25, 1992, there were 1,368,852 shares available for issuance to employees under the ECAP, which would be reduced to 1,189,059 shares if the Corporation continues to have the ECAP qualify under Rule 16b-3 of the Securities and Exchange Act of 1934 ("Rule 16b-3 Qualification").

The activity in the ECAP for the years ended December 25, 1992 and December 27, 1991 was as follows:

	Restricted Shares		Performance Share Grants	
	1992	1991	1992	1991
Outstanding, beginning of year	5,797,973	7,017,570	322,500	322,500
Granted	12,770	1,123,686	–	–
Paid or released from contingencies	(2,227,978)	(2,054,802)	(180,600)	–
Forfeited	(101,416)	(288,481)	(141,900)	–
Outstanding, end of year	3,481,349	5,797,973	–	322,500

Financial Consultant Capital Accumulation Award Plan

Under the Financial Consultant Capital Accumulation Award Plan and its predecessor plans ("FCCAAP"), eligible employees are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a specified period of time and is subject to forfeiture during that period. The award is payable at the end of such period in either shares of the Corporation's common stock or in cash, depending on the market value of the Corporation's common stock. A total of 10,111,415 shares of the Corporation's common stock are authorized for issuance under the FCCAAP. Shares of common stock issuable under the FCCAAP may only be from shares held as treasury stock. Although the first grant is scheduled to be paid in 1996, under certain circumstances grants may be paid prior to the scheduled dates. At December 25, 1992, there were 4,287,296 shares available for issuance under the FCCAAP.

Long-Term Incentive Compensation Plan

The Long-Term Incentive Compensation Plan ("Long-Term Plan") provides for grants of Performance Shares and Units, Restricted Shares and Units, Incentive and Nonqualified Stock Options, Stock Appreciation Rights and Other ML & Co. Securities to certain key employees. Up to 40,000,000 shares of the Corporation's common stock have been authorized for distribution under the Long-Term Plan. Performance Units, Restricted Units and in certain circumstances Stock Appreciation Rights and Other ML&Co. Securities are paid in cash.

Payments under the Long-Term Plan are contingent upon continued employment for a specified period of time, and with respect to Performance Shares and Performance Units, the achievement of specific performance goals.

Upon grant, a Performance Share is deemed to be equivalent in fair market value to one share of the Corporation's common stock, and shares issued in payment could be subject to a Restricted Period subsequent to the termination of the Performance Period. Restricted Shares are shares of the Corporation's common stock that are subject to forfeiture during a Vesting Period. Each Performance and Restricted Unit is deemed to be equivalent in fair market value to one share of common stock and is payable in cash at the end of the Performance Period, or Vesting Period. Performance Shares or Restricted Shares could be subject to a certain Restricted Period subsequent to the termination of the Performance Period or Vesting Period. Cash amounts equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock are payable to Restricted Unit holders and may be payable to Performance Unit and Performance Share holders. As of December 25, 1992, there have been no grants of Performance Shares, Performance Units, Stock Appreciation Rights or Other ML & Co. Securities under the Long-Term Plan.

The activity for Restricted Shares and Units under the Long-Term Plan for the years ended December 25, 1992 and December 27, 1991 was as follows:

	Restricted Shares		Restricted Unit Grants	
	1992	1991	1992	1991
Outstanding, beginning of year	3,100,401	1,475,420	3,180,967	1,508,904
Granted	812,388	1,742,591	816,416	1,829,931
Forfeited or released from contingencies	(1,453,674)	(117,610)	(1,455,724)	(157,868)
Outstanding, end of year	2,459,115	3,100,401	2,541,659	3,180,967

Under the Long-Term Plan, eligible employees may also be granted Incentive and Nonqualified Stock Options to purchase shares of the Corporation's common stock. The exercise price of Incentive Stock Options may not be less than 100% of the fair market value of the Corporation's common stock at time of grant. The exercise price for Nonqualified Stock Options is established at the time of grant and cannot be less than 50% of the fair market value of a share of common stock at the time of grant. Stock Options granted in 1989 through 1992 become exercisable in four equal installments (of 25% each year) commencing one year after the date of grant. The Stock Options expire 10 years after their grant date.

The activity for Nonqualified Stock Options under the Long-Term Plan for the years ended December 25, 1992 and December 27, 1991 was as follows:

	Shares Subject To Option	
	1992	1991
Balance, beginning of year	13,638,871	8,412,060
Granted	2,720,350	6,777,649
Exercised	(2,303,911)	(1,071,733)
Forfeited or surrendered	(347,566)	(479,105)
Balance, end of year	13,707,744	13,638,871

At December 25, 1992, approximately 3,051,000 options were exercisable at prices per share ranging from $21.375 to $59.3125.

At December 25, 1992, there were 18,973,517 shares available for issuance to employees under the Long-Term Plan. Restricted Shares forfeited by employees after October 31, 1991 (totaling 81,590 shares) have been excluded from shares available for issuance because the Corporation has elected Rule 16b-3 Qualification for the Long-Term Plan. In January 1993, eligible participants were granted Nonqualified Stock Options for 2,884,970 shares. In February 1993, 849,630 and 877,726 Restricted Shares and Units, respectively, were granted to eligible employees.

Incentive Equity Purchase Plan

The Incentive Equity Purchase Plan ("IEPP") allows selected employees to purchase the Corporation's common stock at a price equal to the book value per share as of the valuation date preceding the purchase date ("Book Value Shares"). These shares may be sold back to the Corporation at the book value per share as of the valuation date preceding the sale (adjusted for certain nonrecurring items), provided they have been held for a minimum of six months. Alternatively, Book Value Shares may be exchanged at any time for a specified number of freely transferable market shares, the number of which is determined by the ratio of book value to market value at the time of purchase. Book Value Shares may not be sold in the open market. Up to 15,000,000 shares of the Corporations common stock have been authorized for issuance under the IEPP. At December 25, 1992, 11,894,145 shares were available for purchase by eligible employees. Because the Corporation has elected Rule 16b-3 Qualification for the IEPP, shares reacquired from employees after April 25, 1991 through purchase or exchange, have been excluded from the total Book Value Shares available for purchase. Book Value Shares outstanding as of December 25, 1992 and December 27, 1991 were 765,400 and 827,900, respectively.

Management Capital Accumulation Plan

Under the Management Capital Accumulation Plan ("MCAP"), eligible retail management employees are granted MCAP Units. MCAP Units are equivalent to, and payable in, shares of the Corporation's common stock. Payment of MCAP Units is contingent upon continued employment for a specified period of time and is subject to forfeiture during this period. During this period, MCAP Units are credited with an amount equal to cash dividends payable on an equivalent number of shares of the Corporation's common stock. Such dividend equivalents are converted into additional MCAP Units. A total of 2,000,000 shares of the Corporation's common stock are authorized for issuance under the MCAP. Shares of common stock issued under the MCAP may only be from shares held as treasury stock. At December 25, 1992, there were 1,293,471 shares available for issuance to employees under the MCAP. MCAP Units outstanding at December 25, 1992 and December 27, 1991 were 356,400 and 737,989, respectively.

Financial Instruments with Off-Balance-Sheet Risk and Concentrations of Credit Risk

The Corporation operates in all major global markets and, as such, enters into transactions involving a wide variety of financial instruments that have both on and off-balance-sheet implications. Financial instruments can include financial futures, forward contracts, options, and swaps and derivatives.

Over the past decade, transactions involving financial instruments have grown rapidly, most notably in the swaps and derivatives markets. These markets now include a large number of dealer participants, including most major banks and financial institutions. Using swaps and derivatives, dealers can provide customized financing to a large customer base which includes corporations, sovereign governments, pension funds and government agencies. As the customer base has expanded, so has the liquidity of these products with notional or contractual values growing to several trillion dollars. Nevertheless, despite the volume of these transactions, the default rate historically has been low industry wide.

Transactions involving financial instruments contain both market and credit risk, which may expose the Corporation to losses.

Market Risk

Market risk is the potential change in value caused by movements in interest rates, foreign exchange rates, or market prices of the underlying financial instrument. Market risk is also caused by volatility and illiquidity in the markets in which financial instruments are traded.

The notional or contractual amounts of financial instruments provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk. In many cases, these financial instruments limit the Corporation's exposure to losses from market risk by hedging other on and off-balance-sheet transactions. The Corporation seeks to control market risk by developing and refining hedging strategies that correlate price movements of trading inventories and related hedges.

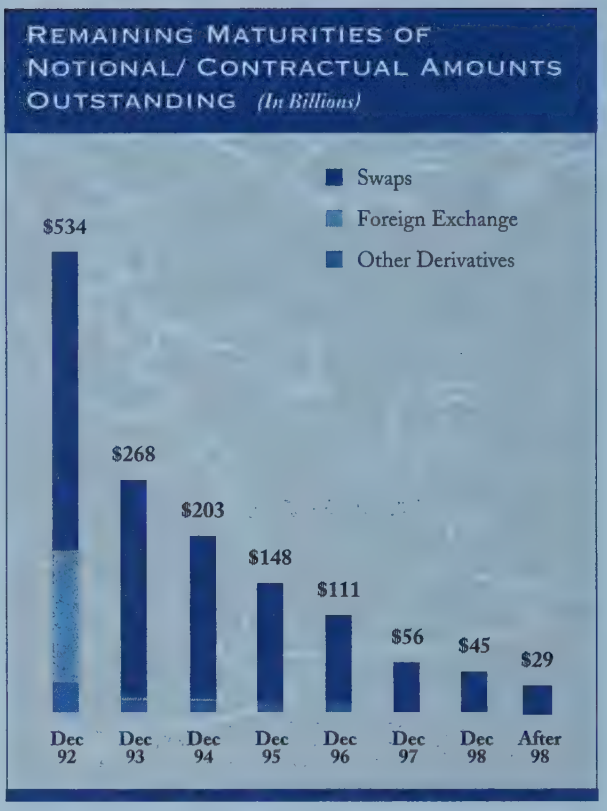
The Corporation enters into contractual agreements involving futures, forwards (including mortgage-backed securities), options and swap transactions, including swap options, caps, collars and floors, to facilitate customer transactions and to manage its balance sheet exposures. The Corporation also uses foreign exchange forward contracts to hedge certain foreign currency positions, including the U.S. dollar cost of future foreign currency requirements. In addition, the Corporation writes options on a wide range of financial instruments such as securities, currencies, futures and various market indices. Contractual agreements usually involve future commitments to swap interest payment streams, to purchase or sell other financial instruments at specified terms on a specified date, or to exchange currencies.

The notional or contractual amounts of these instruments are set forth below:

	Notional or Contractual Amount	
($ in billions)	1992	1991
Forward Contracts:		
Securities	$ 33	$ 25
Foreign Exchange	100	80
Futures Contracts:		
Securities	181	112
Foreign Exchange	9	1
Swap Agreements:*		
U.S. Dollar	224	127
Non-Dollar	133	68
Options Written:		
Securities	17	12
Foreign Exchange	27	20

*Includes Swap Options, Caps, Collars and Floors

The majority of the Corporation's off-balance-sheet transactions are short-term in duration with a weighted average maturity of approximately 2.21 years. The remaining maturities for notional or contractual amounts outstanding for swaps, foreign exchange contracts and other derivatives follows:



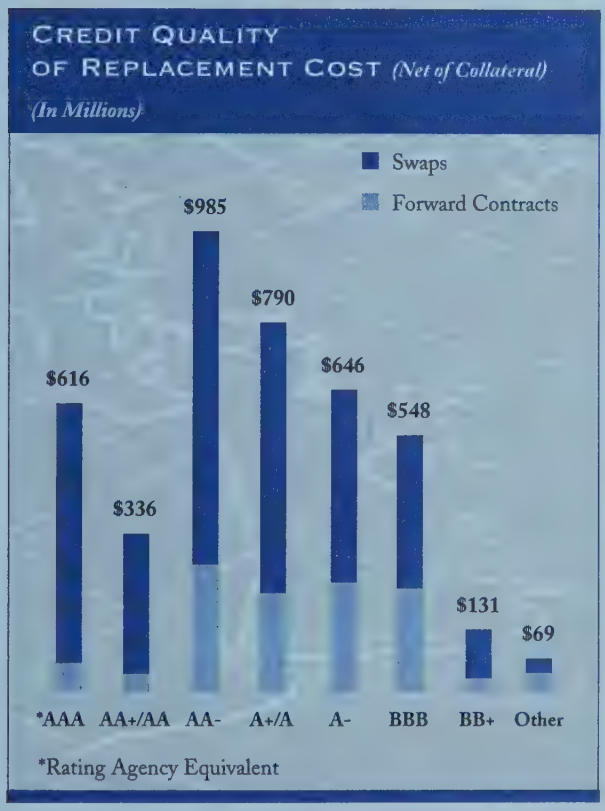
In addition to futures, forward, swap and option contracts, the Corporation enters into commitments to sell securities not yet purchased which are recorded as liabilities on the balance sheet. The Corporation is exposed to off-balance-sheet risk that potential market price increases will cause the ultimate obligations under these commitments to exceed the amount recognized on the balance sheet.

Credit Risk

Credit risk arises from the possibility that a loss may occur as a result of counterparty non-performance. The Corporation has controls in place to monitor credit exposures by limiting transactions with specific counterparties and assessing the future creditworthiness of counterparties.

The Corporation also seeks to control credit risk by following an established credit approval process, monitoring credit limits, and by requiring collateral where appropriate. Certain contracts require counterparties to pledge collateral at the onset of the transaction or when certain credit sensitive provisions are triggered during the life of the transaction. Collateral usually is in the form of cash, U.S. Government and government agency securities, medium-term notes or asset-backed securities, depending upon the nature of the transaction. In accordance with industry practice, the market value of collateral received is, at a minimum, equal to the market value of the securities owned, and in most cases, exceeds the market value. Collateral exposures are monitored and adjustments are made to collateral levels and transaction limits in order to minimize the Corporation's exposure on any transaction.

The notional or contractual values of forward contracts and swap agreements do not represent exposure to credit risk, which is limited to the current cost of replacing those contracts in a gain position. At December 25, 1992 and December 27, 1991, the replacement cost (fair value) for forward contracts was $1,227,000 and $1,513,000, and for swap agreements was $3,396,000 and $2,428,000, respectively. To reduce credit risk, the Corporation requires collateral on certain financial instrument transactions, consisting principally of U.S. Government and agency securities. Presented below is a summary of counterparty credit ratings for the replacement cost (net of $502,000 collateral) of contracts in a gain position. At December 25, 1992, 95% of such contracts were with investment grade counterparties.



In the normal course of business, the Corporation executes, settles and finances various customer securities and commodity transactions. These transactions include the purchase and sale (including "short sales") of securities, the writing of options, and the purchase and sale of commodity and financial futures contracts. These activities may expose the Corporation to off-balance-sheet risk arising from the potential that customers or counterparties may fail to satisfy their obligations and the collateral will be insufficient. In these situations, the Corporation may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to its customers or counterparties. The Corporation seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines.

The Corporation also borrows and lends securities to finance securities transactions and to facilitate the settlement process, utilizing both securities owned by the Corporation and securities owned by customers collateralizing margin debt. In addition, security transactions are financed through collateralized resale and repurchase agreements.

When the Corporation borrows securities, it usually provides the counterparty with collateral in the form of cash, letters of credit or other securities. When the Corporation lends securities, it receives collateral in the form of cash or other securities which are approximately equal to the market value of securities owned.

When the Corporation enters into repurchase and resale agreements, these contracts generally are collateralized by U.S. Government and government agency securities, medium-term notes or asset-backed securities. Repurchase agreements are collateralized by cash or securities with a market value in excess of the Corporation's obligation under the contract.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed to receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed to receive, the Corporation may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

The market value of securities owned by the Corporation that have been loaned or were collateralizing either repurchase agreements or obligations associated with various settlement processes at December 25, 1992 and December 27, 1991, were $20,492,000 and $14,026,000, respectively.

The Corporation, in the normal course of business, enters into commitments to extend credit, predominantly at floating interest rates, in connection with certain merchant banking transactions and to provide customers with lines of credit collateralized by first and second mortgages on real estate or certain liquid assets of small businesses. Such commitments expose the Corporation to off-balance-sheet credit risk. These commitments, which usually have a fixed expiration date, are contingent on certain contractual conditions and may require the payment of a fee by the counterparty. Once commitments are drawn upon, collateral may be required depending upon the creditworthiness of the counterparty and market conditions.

The total amount of outstanding commitments may not represent future cash requirements as commitments may expire without being drawn upon. As of December 25, 1992, the Corporation has committed to extend credit of $1,586,000.

Concentrations of Credit Risk

The Corporation provides investment, financing, insurance and related services to a diverse group of domestic and foreign organizations including governments, corporations, and institutional and individual investors.

The Corporation's exposure to credit risk associated with these transactions is measured on an individual customer basis, as well as by groups of customers that share similar attributes. Concentrations in credit risk can

be affected by changes in geographic, industry or economic factors. To alleviate the potential for risk concentration, credit limits are established and continually monitored in light of changing customer and market conditions.

In conjunction with its investment and merchant banking activities, the Corporation from time to time provides short-term bridge financing and other extensions of credit and equity investments to facilitate leveraged transactions. In the normal course of business, the Corporation also purchases, sells and makes markets in non-investment grade securities. Non-investment grade securities have been defined as debt and preferred equity securities rated by Standard and Poor's as BB + or lower and by Moody's as Ba1 or lower (or equivalent ratings for other instruments and non-U.S. securities), sovereign debt issued by less developed countries, amounts due under swap and derivative contracts from non-investment grade counterparties, as well as non-rated securities which, in the opinion of management, are non-investment grade.

These activities expose the Corporation to a higher degree of credit risk than is associated with investing, extending credit, underwriting and trading in investment grade instruments. At December 25, 1992, the Corporation's aggregate exposure to credit risk (both on and off-balance-sheet) associated with non-investment grade securities, high-yield financings and highly leveraged transactions amounted to $3,849,000. (See "Highly Leveraged Transactions and Non-Investment Grade Holdings" included in Management's Discussion and Analysis - unaudited.)

COMMITMENTS AND CONTINGENCIES

Leases

The Corporation has entered into various noncancelable long-term lease agreements for premises and equipment that expire through 2024 including the World Financial Center headquarters ("WFC"). The Corporation has also entered into various noncancelable short-term lease agreements which are primarily monthly commitments of less than one year under equipment leases. Future minimum rental commitments with initial or remaining noncancelable lease terms exceeding one year are presented below:

	WFC	Other	Total
Minimum Rental Commitments:			
1993	$ 123,433	$168,572	$ 292,005
1994	$ 123,947	$159,264	$ 283,211
1995	$ 124,460	$136,540	$ 261,000
1996	$ 124,836	$124,931	$ 249,767
1997	$ 125,344	$112,819	$ 238,163
Thereafter	$2,575,792	$717,369	$3,293,161

Total minimum rental commitments have not been reduced by $846,922 of minimum sublease rentals to be received in the future under noncancelable subleases.

Other Commitments

In the normal course of business, the Corporation enters into when-issued transactions and underwriting commitments. Settlement of these transactions as of December 25, 1992, would not have a material effect on the consolidated financial condition of the Corporation.

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. A standby letter of credit represents the guarantee of an obligation to a beneficiary on the part of an issuer. Letters of credit aggregated $2,835,000 at December 25, 1992.

Effective January 1991, the Corporation adopted an investment certificate program for all Financial Consultants. Under this program all Financial Consultants meeting minimum production and asset gathering criteria were issued investment certificates with a face amount of $100. Such certificates mature ten years from date issued and are payable if certain performance requirements are achieved. Failure to achieve such performance requirements and to be continuously employed by the Corporation for the 10 year period results (with certain exceptions) in the certificates expiring. The certificates bear interest commencing with the date the requirements are achieved. Financial Consultants who do not initially meet the eligibility requirements become eligible to receive similar certificates upon meeting such requirements. At December 25, 1992, the Corporation had $51,900 accrued under this plan.

The Corporation entered into a renewed service agreement with a provider of data processing services. Under the terms of the agreement, the Corporation will receive market data services and certain other services in return for a commitment to pay the provider a minimum amount during the initial contract period ending in 1996. As of December 25, 1992, minimum fee commitments under the contract aggregated $57,450.

LITIGATION

There are numerous civil actions pending against the Corporation as of December 25, 1992, some of which involve claims for substantial amounts. Although the ultimate outcome of these actions cannot be ascertained at this time, and liabilities of indeterminate amounts may be imposed upon the Corporation, it is the opinion of management that the resolution of these suits will not have a material adverse effect on the consolidated financial condition of the Corporation. Item 3, "Legal Proceedings", in the Corporation's 1992 Annual Report on Form 10-K which is unaudited and available upon request, contains additional information concerning pending lawsuits.

Five-Year Financial Summary

(Dollars in Thousands)	1992		1991		1990		1989		1988	
	Year Ended Last Friday in December									
REVENUES	(52 Weeks)		(52 Weeks)		(52 Weeks)		(52 Weeks)		(53 Weeks)	
Commissions										
Listed securities	$ 1,147,142	8.6%	$ 1,064,977	8.6%	$ 840,650	7.6%	$ 988,801	8.8%	$ 850,005	8.7%
Mutual funds	667,519	5.0	519,089	4.2	389,524	3.5	321,889	2.8	287,314	3.0
Money market instruments	190,525	1.4	175,980	1.4	189,963	1.7	187,159	1.7	190,490	2.0
Other	394,500	2.9	377,470	3.1	336,721	3.0	335,516	3.0	318,642	3.3
Total	2,399,686	17.9	2,137,516	17.3	1,756,858	15.8	1,833,365	16.3	1,646,451	17.0
Interest and Dividends										
Securities owned and deposits	3,368,629	25.1	3,041,847	24.6	3,074,339	27.6	3,322,181	29.5	2,456,097	25.3
Resale agreements	1,065,710	7.9	1,301,844	10.5	1,488,409	13.3	1,427,797	12.7	978,345	10.1
Investments of insurance subsidiaries	773,838	5.8	847,950	6.9	778,069	7.0	378,783	3.3	184,242	1.9
Customer margin accounts	598,533	4.4	569,420	4.6	603,889	5.4	731,006	6.5	631,298	6.5
Total	5,806,710	43.2	5,761,061	46.6	5,944,706	53.3	5,859,767	52.0	4,249,982	43.8
Principal Transactions										
Fixed-income and foreign exchange	1,616,477	12.0	1,402,630	11.3	1,141,837	10.2	860,100	7.6	1,176,618	12.1
Equities	530,042	4.0	491,095	4.0	299,594	2.7	377,498	3.3	315,003	3.3
Total	2,146,519	16.0	1,893,725	15.3	1,441,431	12.9	1,237,598	10.9	1,491,621	15.4
Investment Banking										
Underwriting	1,327,273	9.9	1,038,525	8.4	551,112	4.9	738,288	6.5	926,944	9.5
Strategic services	156,794	1.1	137,467	1.1	244,332	2.2	357,591	3.2	269,935	2.8
Total	1,484,067	11.0	1,175,992	9.5	795,444	7.1	1,095,879	9.7	1,196,879	12.3
Asset Management and Custodial Fees	859,031	6.4	774,089	6.3	673,539	6.1	598,250	5.3	519,222	5.4
Other	732,278	5.5	620,462	5.0	538,838	4.8	651,092	5.8	590,825	6.1
Total Revenues	13,428,291	100.0	12,362,845	100.0	11,150,816	100.0	11,275,951	100.0	9,694,980	100.0
Interest Expense	4,835,267	36.0	5,106,344	41.3	5,363,900	48.1	5,371,028	47.6	3,768,203	38.9
Net Revenues	8,593,024	64.0	7,256,501	58.7	5,786,916	51.9	5,904,923	52.4	5,926,777	61.1
NON-INTEREST EXPENSES										
Compensation and benefits	4,364,454	50.8	3,867,849	53.3	3,077,485	53.2	3,084,028	52.2	2,835,716	47.9
Occupancy	477,754	5.5	473,562	6.5	519,156	9.0	487,928	8.3	483,884	8.2
Communications and equipment rental	355,876	4.1	348,969	4.8	365,529	6.3	423,306	7.2	440,010	7.4
Depreciation and amortization	281,228	3.3	276,125	3.8	289,361	5.0	290,089	4.9	264,367	4.5
Brokerage, clearing and exchange fees	292,789	3.4	249,861	3.5	237,618	4.1	232,668	3.9	208,521	3.5
Advertising and market development	301,146	3.5	249,844	3.5	225,712	3.9	247,775	4.2	239,932	4.0
Professional fees	256,887	3.0	235,344	3.2	233,565	4.0	249,710	4.2	215,531	3.6
Other	641,501	7.5	537,529	7.4	556,162	9.6	577,805	9.8	562,051	9.5
Provision for restructuring	–	–	–	–	–	–	470,000	8.0	65,509	1.1
Total Non-Interest Expenses	6,971,635	81.1	6,239,083	86.0	5,504,588	95.1	6,063,309	102.7	5,315,521	89.7
Earnings (Loss) Before Income Taxes, Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	1,621,389	18.9	1,017,418	14.0	282,328	4.9	(158,386)	(2.7)	611,256	10.3
Income Tax Expense	668,984	7.8	321,301	4.4	90,472	1.6	58,980	1.0	165,361	2.8
Earnings (Loss) Before Cumulative Effect of Changes in Accounting Principles and Discontinued Operations	952,405	11.1	696,117	9.6	191,856	3.3	(217,366)	(3.7)	445,895	7.5
Cumulative Effect of Changes in Accounting Principles, Net of Income Taxes	(58,580)	(.7)	–	–	–	–	–	–	–	–
Discontinued Operations, Net of Income Taxes	–	–	–	–	–	–	3,981	0.1	17,287	0.3
Net Earnings (Loss)	$ 893,825	10.4%	$ 696,117	9.6%	$ 191,856	3.3%	$ (213,385)	(3.6)%	$ 463,182	7.8%

**Revenues and Interest Expense are presented as a percentage of Total Revenues. Non-Interest Expenses, Cumulative Effect of Changes in Accounting Principles, Discontinued Operations and Earnings are presented as a percentage of Net Revenues.*

Quarterly Information

Presented below are the unaudited quarterly results of operations of the Corporation for 1992 and 1991. The first three quarters of 1992 have been restated for early adoption of two accounting pronouncements. The quarterly information is prepared in conformity with generally accepted accounting principles and reflects all adjustments (which consist of only normal recurring adjustments except as noted above) that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. The nature of the Corporation's business is such that the results of an interim period are not necessarily indicative of results for a full year.

	For the Quarter Ended							
(Dollars in Thousands, Except Per Share Amounts)	Dec. 25, 1992	Sept. 25, 1992	June 26, 1992	March 27, 1992*	Dec. 27, 1991	Sept. 27, 1991	June 28, 1991	March 29, 1991
Total Revenues	$3,267,483	$3,390,205	$3,356,325	$3,414,278	$3,122,327	$3,037,508	$3,063,861	$3,139,149
Interest Expense	1,186,796	1,230,231	1,226,347	1,191,893	1,248,375	1,254,752	1,256,105	1,347,112
Net Revenues	2,080,687	2,159,974	2,129,978	2,222,385	1,873,952	1,782,756	1,807,756	1,792,037
Non-Interest Expenses	1,719,582	1,765,682	1,739,927	1,746,444	1,624,488	1,548,672	1,538,400	1,527,523
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	361,105	394,292	390,051	475,941	249,464	234,084	269,356	264,514
Income Tax Expense	139,664	165,603	163,821	199,896	78,781	73,924	85,052	83,544
Earnings Before Cumulative Effect of Changes in Accounting Principles	221,441	228,689	226,230	276,045	170,683	160,160	184,304	180,970
Cumulative Effect of Changes in Accounting Principles (Net of Applicable Income Taxes)	–	–	–	(58,580)	–	–	–	–
Net Earnings	$ 221,441	$ 228,689	$ 226,230	$ 217,465	$ 170,683	$ 160,160	$ 184,304	$ 180,970
Earnings Per Common Share:								
Primary	$ 1.97	$ 2.04	$ 1.97	$ 1.86	$ 1.46	$ 1.37	$ 1.58	$ 1.62
Fully Diluted	$ 1.96	$ 2.04	$ 1.97	$ 1.86	$ 1.45	$ 1.35	$ 1.55	$ 1.55

**The 1992 first quarter includes the cumulative effect of changes in accounting principles of $(.51) per common share primary and fully diluted.*

Supplemental Financial Information

Industry and Global Operations

The Corporation operates principally in the financial services industry and services individual and institutional clients. A wide range of integrated services enable clients to take advantage of brokerage, distribution, underwriting, research, trading and portfolio management capabilities, which constitute a single industry segment for purposes of segment reporting under SFAS No. 14.

The Corporation operates through regional offices in the Americas, including the United States, Latin America and Canada; Europe and the Middle East; and Asia, which includes Japan and Asia Pacific Regions. These operations are highly integrated reflecting the international nature of today's capital and financial markets. Accordingly, the reported results may not be indicative of amounts which would be reported if each geographic area were a separate operating unit.

Presented is information derived from the management reporting system which reflects management's judgment on the assignment of revenues, and identifiable assets to each region's business activity. Total revenues from foreign operations were $1,827,000, $1,659,000 and $1,337,000 for 1992, 1991 and 1990, respectively, while earnings (loss) before income taxes were $203,300, $127,600 and $(57,700), for 1992, 1991 and 1990, respectively.

Global Operations	1992	1991	1990	1992	1991	1990	1992	1991	1990
(Dollars in Millions)	Net Revenues			Average Assets			Total Employees		
United States	$7,424	$6,283	$5,093	$ 85,703	$71,334	$66,116	36,075	34,725	35,310
Canada and Latin America	281	256	152	3,094	2,486	2,117	670	600	700
Europe and Middle East	623	478	322	12,841	8,706	5,617	2,160	1,960	1,995
Asia	265	240	220	3,765	2,747	1,928	1,195	1,015	995
Consolidated	$8,593	$7,257	$5,787	$105,403	$85,273	$75,778	40,100	38,300	39,000

Stockholder Information

Consolidated Transaction Reporting System prices for the specified calendar quarters were as follows:

	1st Qtr.		2nd Qtr.		3rd Qtr.		4th Qtr.	
	High	Low	High	Low	High	Low	High	Low
1992	$66 3/4	$53 1/2	$55 7/8	$44 3/8	$53 3/4	$48	$62 3/4	$46 1/4
1991	$36	$19 1/8	$42 1/8	$34 5/8	$50 1/4	$38 3/8	$60 7/8	$44 1/8

The approximate number of record holders of common stock as of February 5, 1993 was 12,050.

Dividends Per Common Share *(declared and paid)*

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1992	$.25	$.30	$.30	$.30
1991	$.25	$.25	$.25	$.25

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited as described in the Notes to Consolidated Financial Statements under the caption "Regulatory Requirements and Dividend Restrictions."

MERRILL LYNCH & CO., INC. BOARD OF DIRECTORS

William O. Bourke

Retired Chairman and Chief Executive Officer of Reynolds Metals Company...Corporate Director ...65 years old...elected a Director of Merrill Lynch in 1987.

John F. Burlingame

Retired Vice Chairman of the Board and Executive Officer of General Electric Company... Corporate Director...70 years old...elected a Director of Merrill Lynch in 1985.

Jill K. Conway

Visiting Scholar, Massachusetts Institute of Technology...President of Smith College from 1975 to 1985...58 years old...elected a Director of Merrill Lynch in 1978.

William J. Crowe, Jr.

Chairman of President's Foreign Intelligence Advisory Board...Admiral, United States Navy (Retired)...served as Chairman of the Joint Chiefs of Staff...Counselor, Center for Strategic and International Studies...Professor of Geopolitics at the University of Oklahoma...68 years old... elected a Director of Merrill Lynch in 1989.

Stephen L. Hammerman

Vice Chairman of the Board and General Counsel ...54 years old...joined Merrill Lynch in 1978.

Robert A. Hanson

Retired Chairman of the Board and formerly Chief Executive Officer of Deere & Company... 68 years old...Corporate Director...elected a Director of Merrill Lynch in 1984.

Earle H. Harbison, Jr.

Chairman of the Executive Committee and formerly President and Chief Operating Officer of Monsanto Company, a provider of chemical and agricultural products, pharmaceuticals, sweeteners, industrial process controls and man-made fibers...64 years old...elected a Director of Merrill Lynch in 1987.

Robert P. Luciano

Chairman and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company...59 years old... elected a Director of Merrill Lynch in 1989.

John J. Phelan, Jr.

Former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc....Senior Advisor, Boston Consulting Group...Corporate Director...61 years old...became a Director of Merrill Lynch in 1991.

Charles A. Sanders, M.D.

Chairman and Chief Executive Officer of Glaxo Inc., a pharmaceutical company...formerly Vice Chairman of Squibb Corporation...61 years old... elected a Director of Merrill Lynch in 1987.

William A. Schreyer

Chairman of the Board...65 years old...joined Merrill Lynch in 1948.

Daniel P. Tully

President and Chief Executive Officer...61 years old...joined Merrill Lynch in 1955.

EXECUTIVE MANAGEMENT

Herbert M. Allison, Jr.
Executive Vice President
Finance & Administration

Barry S. Friedberg
Executive Vice President
Investment Banking Group

Edward L. Goldberg
Executive Vice President
Operations, Systems and Telecommunications

Stephen L. Hammerman
Vice Chairman of the Board
General Counsel

John G. Heimann
Chairman
Global Financial Institutions

Jerome P. Kenney
Executive Vice President
Corporate Strategy & Research

David H. Komansky
Executive Vice President
Debt Markets Group

Daniel T. Napoli
Senior Vice President
Global Risk Management

Thomas H. Patrick
Executive Vice President
Equity Markets Group

Winthrop H. Smith, Jr.
Executive Vice President
International

John L. Steffens
Executive Vice President
Private Client Group

Roger M. Vasey
Executive Vice President
Senior Advisor

Arthur Zeikel
Executive Vice President
Asset Management Group

Senior Management

Leonard E. Accardo
Bruce L. Ackerman
Francis G. Adams, Jr.
Robert E. Aherne
Matt T. Aizawa
Thomas B. Akin
Kevin K. Albert
Jake L. Albright
Mir S. Ali
Albert G. Allen
Harry P. Allex
Edward S. Annunziato
Harvey A. Appelle
Joseph D. Argilagos
Gerald S. Armstrong
Terry J. Arnold
Livia S. Asher
John F. Bahrenburg
Curtis W. Baker
George D. Baker
Robert C. Barber
Daniel Barry
Flavio C. Bartmann
Roger N. Barton
Harley S. Bassman
Joseph L. Baughman
Michael A. Baumrin
Daniel H. Bayly
Joseph J. Bellace
Stephen M. Bellotti
James G. Bennett
Jeffrey A. Bennett
C. Anders Bergendahl
Alfred B. Berger
Rosemary T. Berkery
Frances B. Bernstein
Richard Bernstein
Paula E. Beroza
James A. Billington
Malcolm B. Binks
Edward V. Blanchard
Gary F. Blemaster
Philip E. Blevins
James J. Bohan
Charles P. Borkowski, Jr.
Michael D. Botte
Robert J. Boucher
Philip C. Bowers
Richard J. Bowers III
Matthias B. Bowman
Dennis J. Boyle
Nicholas M. Brandjes
Robert S. Bridges
Ian Brimecome
William S. Broeksmit
Roberts W. Brokaw III
Douglas V. Brown
John J. Brown
Candace E. Browning-Platt
D. Bruce Brunson
Gregory A. Bundy
Peter R. Bunn
Gary D. Bunton
James J. Burke, Jr.
Lucy O. Buschmann
Richard J. Byrne
Eduardo M. Cabrera
Donald C. Cacciapaglia
Daniel J. Campbell
Thomas E. Capasse
Jeffrey C. Carey
C. Edward Carter
Michael J. Castellano
David W.S. Chambers
Sherman Chao
Samuel R. Chapin
Stephen I. Chazen
Zenaida C. Chinloy
Sanjoy Chowdhury
Yeon-Hang Chuah
Martin J. Cicco
Peter Clarke
Charles I. Clough, Jr.
Daniel C. Cochran
Lee R. Cole
Mark M. Collins
David C. Conine
Andrew J. Cooley
Jerome J. Corcoran
Samuel B. Corliss, Jr.
Harold F. Corrigan
Thomas J. Coughlin
Mario M. Covo
Michael R. Cowan
Kevin M. Cox
Gerald E. Cremins
Paul W. Critchlow
Robert W. Crook
Joseph E. Crowne
John R. Cummings
E.S. Puran Das
Thomas W. Davis
Thomas M. Deford
Michael H. De Havenon
Mario Dell'Oro
Paul Dennison
Robert G. Dieckmann
Adriano Dispenza
Michele Di Stefano
Albert D. Disposti
Robert C. Doan
Daniel J. Donahue
Albert J. Donohue
Thomas J. Doyle
Richard M. Drew
James V. Duffy
David M. Dunford
Richard A. Dunn
Carleen L. Duque
Bernard J. Durnin
Alan R. Eckert
Andrew P. Edelmann
Marsha L. Eisenberg
George D. Elling
Robert F. End
Arnold Endelman
Brad F. England
Christopher J. English
Freddy Enriquez
Sergio Ermotti
Angelo V. Esposito
Bowers W. Espy
Peter A. Falco
Robert J. Farrell
Paul R. Fehrenbach
Michael R. Feigeles
Jeffrey S. Feldman
Sylvan G. Feldstein
Frank A. Fernandez
Philip J. Fischer
Anthony H. Fisher
Albert J. Fitzgibbons III
James F. Flaherty III
Sandra J. Flannigan
Constantine D. Fliakos
Lawrence W. Forlenza
John C. Forrey
Paul E. Francis
Gregory C. Franks
Doreen Frasca
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Joseph Freitas
Martin S. Fridson
Hidemi Fukuhara
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Richard Gaiti
John M. Galante
Michael J. Galbreath
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John L. Gelbach
Jeffrey A. Gelfand
Robert J. Gemmell
William Genco
Steven B. Geovanis
Donald N. Gershuny
J. Michael Giles
John Ginelli
Vincent R. Giordano
Jerome Alan Gitt
Terry K. Glenn
Robert S. Goldberg
Jonathan L. Goldfarb
Mark L. Goldman
Laurie S. Goodman
Ernest C. Goodrich
Susan Graham

SENIOR MANAGEMENT (CONTINUED)

Francisco Granados
Robert D. Grandy
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Stephen R. Gretz
Carlos A. Gutierrez
Ann L. Hagan
Peter C. Hagan
John Hallacy
Douglas W. Hamilton
Richard A. Hanson
Robert D. Hardiman
K. Carter Harris
Randy A. Harris
Norman R. Harvey
David Hay
Harvey E. Heinbach
John C. Hele
Jordan Heller
Brian C. Henderson
Robert L. Henkle
Ruth S. Hennefeld
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N. John Hewitt
Jerry R. Hilligoss
James A. Hislop
Paul J. Holland
Michel Horat
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Thomas J. Hughes
Jeffrey L. Humber, Jr.
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Akio Ishida
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Thiam J. Lim
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Manuel E. Mejia Aoun
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Alexandro P. Michas
Nassos Michas
David J. Middleton
Orestes J. Mihaly
Terran A. Miller
Stephen M. Miller
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Edson V. Mitchell
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Hisashi Moriya
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George Nitschelm
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Joseph A. Palmeri
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David S. Patten
Dale R. Paulshock
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Michael J. Perini
Clarence O. Peterson III
Joseph M. Petri
Michael G. Philipp
Thomas E. Philips
Christine L. Pinto
Charles J. Plohn, Jr.



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1992
Second Quarter Report

Merrill Lynch & Co., Inc.

To Our Shareholders And Employees:

On top of a record performance in 1991, the achievement of record second quarter and first-half earnings reflects our strong, sustained market position with a diverse client base of investors and issuers worldwide.

Second quarter net earnings were $227.7 million, up 24% from the previous second-quarter record of $184.3 million in 1991.

Quarterly earnings per common share were $1.98 primary and fully diluted, compared with $1.58 primary and $1.55 fully diluted in the year-ago period.

Net earnings for the first half of 1992 were a record, up 38% from the prior year's period to $505.2 million.

Second quarter net revenues (revenues after interest expense) increased 18% above the 1991 second quarter, while non-interest expenses rose 13%. Net profit margin advanced to 10.7%, compared with 10.2% in last year's second quarter, despite an increase in the effective tax rate from 32% to 42% year-to-year.

Our revenues are well-balanced among our major lines of business, and expenses have been consistent with the level of business activity. As we move forward, our highest priority will continue to be the delivery of exceptional, innovative client service combined with careful control of costs and risks.

We are pleased to report that Merrill Lynch continued its four-year dominance in underwriting, earning first-half honors as lead underwriter of corporate debt and equity securities, both in the U.S. and globally. The firm raised more than $73 billion on behalf of U.S. clients in the first half of the year — more than 70% of the firm's total for all of 1991, which was a record in its own right.

Total assets held in Private Client accounts worldwide reached $446 billion, far more than at any other financial services firm. Asset management and custodial fee revenues also rose, reflecting the continuing success of our asset-gathering and fee-based revenue strategy.

For securities issuers and investors alike, Merrill Lynch continues to play an important role in expanding opportunities in the global marketplace. Among recent, significant transactions, we served as global coordinator for our largest corporate initial public offering, a $770 million issue for London-based Waste Management International, and we underwrote the first non-dollar LYONs® issue, which raised ECU 145 million for Sweden's Aktiebolaget SKF. A $115 million issue of American depository shares for Banco Comercial Português marked the first listing of a Portuguese company on the New York Stock Exchange. We also introduced the Dragon Fund, a $350 million mutual fund that will invest in emerging Pacific Rim markets, and have been appointed by the government of Ukraine to serve as financial advisor in the proposed privatization of a major state-owned industry.

While we are mindful that our second quarter results were achieved in a favorable market environment, we are confident that we have built a foundation for *continued* profitability based on our management of factors we can control: costs, client service and risk.

With our knowledge of the global marketplace, our integrity and our unparalleled resources, we are well-positioned to thrive and prosper as our clients' trusted advisor, and to be stronger and more pre-eminent in the 1990s than ever before.



William A. Schreyer
Chairman of the Board



Daniel P. Tully
President and Chief Executive Officer

August 14, 1992

Review Of Second Quarter Operations

Revenues, net of interest expense ("Net Revenues"), for the 1992 second quarter advanced 18% over the prior-year period to $2.130 billion. Total revenues rose 10% to $3.356 billion. Revenue growth was broad based, with all revenue categories increasing over the prior year.

Commission revenues advanced 8% to $569 million, reflecting increased mutual fund commissions. Commissions on listed securities also advanced, assisted by higher trading volume and average share prices.

Interest and dividends revenues increased 3% to $1.460 billion while interest expense (including dividend expense) decreased 2% to $1.226 billion. As a result, net interest and dividend profit increased 49% to $234 million. Lower interest rates have continued to bolster the Corporation's net interest and dividend profit.

Principal transactions revenues rose 19% to $552 million, with higher revenues from swaps and derivatives, government, agency and municipal securities, and corporate bonds.

Investment banking revenues advanced 27% to a record $399 million aided by strong revenues from the underwriting of corporate equities and closed-end funds, as well as higher underwriting revenues from private placements, mortgage- and asset-backed securities, high-yield bonds and municipal securities. Strategic services revenues benefited from increased merger and acquisition activity.

Asset management and custodial fees rose 11% to $217 million as a result of a higher level of assets under management and increased fee-based revenues from CMA® and retirement accounts. The advance in these fee-based revenues is attributable to increased annual service fees instituted in the 1991 third quarter and to growth in new accounts.

Other revenues increased 5% to $160 million, assisted by a higher level of fees earned from Merrill Lynch Consults,℠ an investment portfolio management service, and from mortgage servicing. Increases in other revenues were substantially offset by provisions related to merchant banking activities.

Non-interest expenses of $1.737 billion increased 13% from the year-ago quarter. Compensation and benefits expense, which accounts for approximately 62% of total non-interest expenses, increased 13% due to higher volume-related compensation and increases in variable compensation tied directly to the Corporation's performance. However, compensation as a percentage of net revenues declined to 50.8% from 53.0% in the prior-year's period.

Brokerage, clearing and exchange fees rose 12% due to increased business volume. Advertising and market development expenses increased 36% as the active business environment led both to higher recognition program costs for Financial Consultants and Account Executives, and to increased sales promotion. Facilities-related costs, including occupancy, depreciation and amortization, and communications and equipment rental expenses were virtually unchanged. Professional fees increased 20% due to discretionary business and systems development projects. Other expenses increased 26%, reflecting additions to reserves for various business activities.

Income tax expense of $165 million represents a 42% effective tax rate versus 32% in the year-ago period. The higher effective tax rate in 1992 results from reduced utilization of tax benefits.

Net earnings were $227.7 million compared with $184.3 million a year ago. Primary and fully diluted earnings per common share were $1.98 versus $1.58 primary and $1.55 fully diluted for the 1991 quarter.

Net earnings for the first half of 1992 were a record $505.2 million, compared with $365.3 million for the first half of 1991. Earnings per common share were $4.37 primary and fully diluted versus $3.20 primary and $3.08 fully diluted for the prior-year period.

Prior-period financial statements have been reclassified to conform to the current period presentation.

Statement of Consolidated Earnings

(Unaudited)	*For The Three Months Ended*		*% Increase*
(In Thousands, Except Per Share Amounts)	*June 26, 1992*	*June 28, 1991*	*(Decrease)*
Revenues			
Commissions	$ 568,842	$ 525,982	8 %
Interest and dividends	1,460,088	1,413,203	3
Principal transactions	551,767	463,399	19
Investment banking	399,312	313,702	27
Asset management and custodial fees	216,789	195,329	11
Other	159,527	152,246	5
Total Revenues	3,356,325	3,063,861	10
Interest Expense	1,226,347	1,256,105	(2)
Net Revenues	2,129,978	1,807,756	18
Non-Interest Expenses			
Compensation and benefits	1,081,980	958,536	13
Occupancy	117,965	114,404	3
Communications and equipment rental	84,453	87,242	(3)
Depreciation and amortization	68,663	67,891	1
Brokerage, clearing and exchange fees	71,847	64,139	12
Advertising and market development	79,259	58,479	36
Professional fees	63,254	52,642	20
Other	170,006	135,067	26
Total Non-Interest Expenses	1,737,427	1,538,400	13
Earnings Before Income Taxes	392,551	269,356	46
Income tax expense	164,872	85,052	94
Net Earnings	$ 227,679	$ 184,304	24 %
Net Earnings Applicable to Common Stockholders	$ 226,021	$ 179,894	
Earnings Per Common Share:			
Primary	$ 1.98	$ 1.58	
Fully diluted	$ 1.98	$ 1.55	
Dividends Paid Per Common Share	$.30	$.25	
Average Shares Used in Computing Earnings Per Common Share:			
Primary	113,964	113,711	
Fully diluted	113,964	118,139	

See Notes to Consolidated Financial Statements

Statement of Consolidated Earnings

(Unaudited) *(In Thousands, Except Per Share Amounts)*	*For The Six Months Ended* *June 26, 1992*	*June 28, 1991*	*% Increase (Decrease)*
Revenues			
Commissions	$1,254,032	$1,060,500	18 %
Interest and dividends	2,850,733	2,911,731	(2)
Principal transactions	1,125,759	1,012,967	11
Investment banking	760,451	508,618	50
Asset management and custodial fees	436,938	385,898	13
Other	342,690	323,296	6
Total Revenues	6,770,603	6,203,010	9
Interest Expense	2,418,240	2,603,217	(7)
Net Revenues	4,352,363	3,599,793	21
Non-Interest Expenses			
Compensation and benefits	2,191,755	1,920,257	14
Occupancy	239,851	235,610	2
Communications and equipment rental	172,259	173,466	(1)
Depreciation and amortization	136,405	135,606	1
Brokerage, clearing and exchange fees	139,228	125,088	11
Advertising and market development	152,711	107,418	42
Professional fees	120,984	103,635	17
Other	328,178	264,843	24
Total Non-Interest Expenses	3,481,371	3,065,923	14
Earnings Before Income Taxes	870,992	533,870	63
Income tax expense	365,817	168,596	117
Net Earnings	$ 505,175	$ 365,274	38 %
Net Earnings Applicable to Common Stockholders	$ 501,643	$ 355,173	
Earnings Per Common Share:			
Primary	$ 4.37	$ 3.20	
Fully diluted	$ 4.37	$ 3.08	
Dividends Paid Per Common Share	$.55	$.50	
Average Shares Used in Computing Earnings Per Common Share:			
Primary	114,754	110,915	
Fully diluted	114,754	117,491	

See Notes to Consolidated Financial Statements

Consolidated Balance Sheet

(Dollars In Thousands, Except Per Share Amounts)	*June 26, 1992*	*Dec. 27, 1991*
ASSETS	*(Unaudited)*	
Cash and Cash Equivalents		
Cash	$ 180,444	$ 337,114
Interest-earning deposits	511,863	168,210
Floating rate short-term securities	551,304	568,600
Total	1,243,611	1,073,924
Cash Segregated and Securities Owned on Deposit for Regulatory and Other Purposes	2,873,117	3,354,591
Receivables		
Resale agreements	22,147,972	15,343,579
Customers (net of allowance for doubtful accounts of $28,058 in 1992 and $43,291 in 1991)	8,960,307	7,967,765
Securities borrowed	14,848,945	11,831,715
Loans, notes and mortgages (net of allowance for loan losses of $340,629 in 1992 and $251,917 in 1991)	2,393,241	2,318,971
Brokers and dealers	3,553,141	3,659,168
Interest	977,793	898,491
Other	966,342	1,055,189
Total	53,847,741	43,074,878
Inventories, at Fair Value		
Corporates	11,565,439	9,794,268
Governments and agencies	8,611,070	7,107,559
Mortgages and mortgage-backed	6,787,438	4,579,132
Money market instruments	3,247,599	2,679,726
Municipals	901,129	747,747
Total	31,112,675	24,908,432
Investments of Insurance Subsidiaries, at Amortized Cost (Fair value: 1992 — $9,749,013 and 1991 — $9,986,524)	9,486,672	9,666,952
Other Assets		
Investment securities	1,564,639	1,232,161
Property, leasehold improvements and equipment (net of accumulated depreciation and amortization of $1,406,632 in 1992 and $1,335,134 in 1991)	1,553,790	1,559,097
Other	1,402,541	1,389,308
Total	4,520,970	4,180,566
Total Assets	$103,084,786	$86,259,343

(Dollars In Thousands, Except Per Share Amounts)	*June 26, 1992*	*Dec. 27, 1991*
LIABILITIES AND STOCKHOLDERS' EQUITY	*(Unaudited)*	
LIABILITIES		
Short-Term Borrowings		
Repurchase agreements	$ 30,507,685	$ 24,522,275
Commercial paper	8,805,372	7,682,897
Demand and time deposits	4,306,560	3,659,336
Securities loaned	3,242,035	2,482,143
Bank loans	661,922	350,893
Total	47,523,574	38,697,544
Commitments for Securities Sold but Not Yet Purchased, at Fair Value		
Governments and agencies	11,412,396	5,785,869
Corporates	3,546,071	3,698,918
Municipals	163,299	110,195
Total	15,121,766	9,594,982
Other Liabilities		
Customers	10,984,545	10,735,474
Insurance	9,086,110	9,309,847
Brokers and dealers	2,334,644	1,582,737
Compensation and benefits	1,041,211	1,404,294
Drafts payable	951,511	866,128
Interest	509,621	442,688
Income taxes	317,144	338,623
Other	1,583,941	1,504,514
Total	26,808,727	26,184,305
Long-Term Borrowings	9,334,991	7,964,424
Total Liabilities	98,789,058	82,441,255
STOCKHOLDERS' EQUITY		
Preferred stock, par value $1.00 per share (Liquidation preference $100,000 per share); authorized: 25,000,000 shares; issued: 1992 and 1991 — 3,000 shares	3	3
Common stock, par value $1.33 1/3 per share; authorized: 200,000,000 shares; issued: 1992 and 1991 — 117,346,424 shares	156,461	156,461
Paid-in capital	1,615,806	1,456,070
Foreign currency translation adjustment	15,719	10,219
Retained earnings	3,246,820	2,803,392
Subtotal	5,034,809	4,426,145
Less:		
Treasury stock, at cost:		
Common stock: 1992 — 7,556,529 shares; 1991 — 7,806,196 shares	257,598	167,507
Preferred stock: 1992 — 1,062 shares; 1991 — 945 shares	106,200	94,500
Unallocated ESOP shares, at cost:		
Common stock: 1992 — 6,087,866 shares; 1991 — 6,818,410 shares	191,768	214,780
Unamortized expense of equity award plans	127,720	72,682
Notes receivable related to sale of common stock to:		
ESOP	55,510	58,277
Employees	285	311
Total Stockholders' Equity	4,295,728	3,818,088
Total Liabilities and Stockholders' Equity	$103,084,786	$ 86,259,343
Book Value Per Common Share	$ 40.12	$ 35.76

See Notes to Consolidated Financial Statements

Statement Of Consolidated Cash Flows

(Unaudited) (In Thousands)	For The Six Months Ended June 26, 1992	June 28, 1991
Cash (Used for) Provided from Operating Activities	$(2,664,208)	$ 226,624
Cash Flows from Investing Activities		
Proceeds from (payments for):		
Sales of investments by insurance subsidiaries	1,791,638	2,861,179
Purchase of investments by insurance subsidiaries	(1,634,643)	(3,534,812)
Other	(577,118)	(365,612)
Cash Used for Investing Activities	(420,123)	(1,039,245)
Cash Flows from Financing Activities		
Proceeds from (payments for):		
Repurchase agreements, net of resale agreements	(818,983)	(1,050,277)
Short-term borrowings	2,840,620	392,421
Issuance and resale of long-term borrowings	3,571,387	4,127,162
Settlement and repurchase of long-term borrowings	(2,197,120)	(3,002,442)
Other	(141,886)	(90,001)
Cash Provided from Financing Activities	3,254,018	376,863
Increase (Decrease) in Cash and Cash Equivalents	169,687	(435,758)
Cash and Cash Equivalents, Beginning of Year	1,073,924	1,786,779
Cash and Cash Equivalents, End of Period	$ 1,243,611	$ 1,351,021

Income tax payments totaled $314,017 in 1992 and $182,573 in 1991.
Interest payments totaled $2,344,611 in 1992 and $2,421,531 in 1991.

See Notes to Consolidated Financial Statements

Notes To Consolidated Financial Statements (Unaudited)

Basis of Presentation

The consolidated financial statements, prepared in accordance with generally accepted accounting principles, include the accounts of Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated. The interim consolidated financial statements for the three- and six-month periods are unaudited; however, in the opinion of the management of the Corporation, all adjustments necessary for a fair statement of the results of operations have been included. These unaudited financial statements should be read in conjunction with the audited financial statements included in the Corporation's Annual Report on Form 10-K, for the year ended December 27, 1991 and the Corporation's unaudited Quarterly Report on Form 10-Q for the quarterly period ended June 26, 1992. The nature of the Corporation's business is such that the results of any interim period are not necessarily indicative of results for a full year. Prior-period financial statements have been reclassified to conform with the 1992 presentation.

Interest expense includes payments in lieu of dividends of $.7 million and $9.8 million for the second quarters of 1992 and 1991, respectively. For the six-month periods ending June 26, 1992 and June 28, 1991, payments in lieu of dividends were $6.7 million and $18.9 million, respectively.

Commitments

The Corporation enters into financial futures contracts and forward contracts principally involving government and mortgage-backed securities as a dealer and to

hedge inventory. Additionally, the Corporation enters into foreign exchange forward contracts for trading and hedging certain foreign currency positions, including the U.S. dollar cost of future foreign currency requirements. Forward and financial futures contracts are transactions in which one party agrees to deliver a financial instrument to a counterparty at a specified price on a specified date.

The contractual amounts of forward and futures contracts for securities and foreign exchange instruments were $213.0 billion and $137.7 billion, respectively, as of June 26, 1992.

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. As of June 26, 1992, letters of credit aggregating $2.1 billion were used for this purpose.

In the normal course of business, the Corporation enters into swap (including swap options, caps, collars and floors), option and when-issued transactions, and credit extensions and underwriting commitments.

Settlement of these commitments as of June 26, 1992 would not have a material effect on the consolidated financial condition of the Corporation.

Regulatory Requirements

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a broker-dealer and a subsidiary of the Corporation, is subject to the Securities and Exchange Commission's net capital rule. Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than two percent of aggregate debit balances arising from customer transactions. At June 26, 1992, MLPF&S's regulatory net capital of $971 million was 10.8% of aggregate debit balances, and its regulatory net capital in excess of the minimum required was $791 million.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government Securities and a subsidiary of the Corporation, is subject to the Capital Adequacy Rule required by the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of their market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At June 26, 1992, MLGSI's liquid capital of $975 million was 210% of its total market and credit risk, and liquid capital in excess of the minimum required was $418 million.

Investor Information

Stock Price Data - (Consolidated Tape)
Current Price (August 14, 1992): 50¼
P/E Ratio: 7 (Based on trailing 12 months' earnings.)

Second Quarter
High: 55 7/8
Low: 44 3/8
Close: 50 1/2
Average Daily Volume: 598,487

Dividend
Amount: $.30 per share
Declaration Date: July 27, 1992
Record Date: August 7, 1992
Payable Date: August 26, 1992

Merrill Lynch As Principal Transfer Agent

Merrill Lynch & Co. acts as principal transfer agent for its own common stock. Questions from registered stockholders concerning dividends, lost or stolen certificates, changes of legal or dividend addresses and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
P.O. Box 1040, Wall Street Station
New York, New York 10005
Attn: Gregory T. Russo, Secretary

However, registered stockholders wishing to transfer their stock should continue to do so through our Co-Transfer Agent, Chemical Bank in New York.

To the Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have made a review of the condensed consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries as of June 26, 1992 and the related condensed statements of consolidated earnings for the three- and six-month periods ended June 26, 1992 and June 28, 1991 and of condensed consolidated cash flows for the six months ended June 26, 1992 and June 28, 1991 in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the responsibility of the management of Merrill Lynch & Co., Inc.

A review of interim financial information consists principally of obtaining an understanding of the system for the preparation of interim financial information, applying analytical review procedures to financial data, and making inquiries of persons responsible for financial, operational and accounting matters. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the above-mentioned condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Merrill Lynch & Co., Inc. and subsidiaries as of December 27, 1991 and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for the year then ended (not presented herein); and in our report dated February 24, 1992, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 27, 1991 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Deloitte & Touche

New York, New York
August 7, 1992

Fourth Annual Merrill Lynch Retirement Planning Survey Shows Little Progress In Savings Habits

A new Merrill Lynch study shows the savings crisis in the United States is more deep-seated and far-reaching than previously believed.

This situation poses a threat to one of the cornerstones of the American Dream — the freedom to build a better life for ourselves and our children — that could diminish our quality of life for generations to come.

A key finding of The Fourth Annual Merrill Lynch Retirement Planning Survey shows an increased recognition of the need to save, but little improvement in savings practices. In this survey, Merrill Lynch conducted extensive telephone interviews among pre-retirees, benefits managers and, for the first time, members of the baby boom generation. Among the survey's findings:

- Baby boomers (age 25-44) are doing even less than pre-retirees (age 45-64) to prepare for

retirement, and baby boomers are less likely to feel financially prepared for retirement.

- The average percentage of income allocated to a retirement account among pre-retirees has decreased since 1989.
- Less than a third of pre-retirees participate in a 401(k) or other payroll-deduction savings plan.

An Aging Population

As the baby boom generation ages and life expectancy increases, the population of the United States will age dramatically. In the next 40 years, when the last of the baby boom generation reaches 65, the retired population will have risen to 65 million.

By the year 2010, it is estimated that each person over the age of 75 can expect to pay an annual health care bill of $10,000. Yet during the late 1980s, half of all retirees went into retirement with less than $10,000 in savings.

By not adequately preparing for retirement, these individuals represent an increased financial burden for succeeding generations. If the current trend continues, over 30 million baby boomers will not be saving anything for retirement.

Moreover, as each generation is forced to pay for a larger portion of the retirement costs of the preceding generation, it will become more difficult for that generation to maintain its standard of living, let alone save for retirement.

There are a few positive signs, but, unfortunately, the changes revealed by the survey are insufficient to correct what we see as the likely future for those entering retirement over the next 40 years. Among the survey's conclusions:

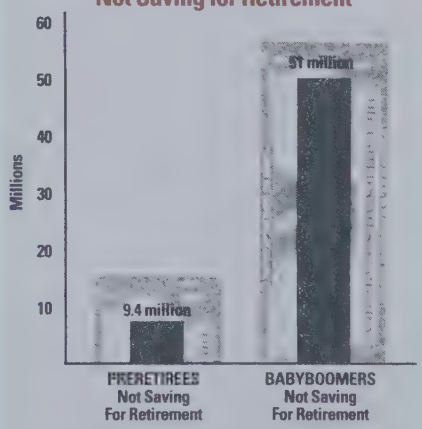
- Unless there is a national resolve to change individual practices, savings will not improve enough to prevent a crisis.
- Unless there is an effort to educate Americans in the management and preservation of their assets, and on the need to begin saving early in life, what they do save will not grow fast enough to meet future needs.
- Unless policies and incentives are established to encourage people to save, we could face unprecedented personal and national hardship.

This scenario is not yet beyond our power to prevent. With increased personal saving, prompted by a concerted effort to educate and motivate on the part of the business community, government and the media, we could very well avert a national crisis.

To receive a copy of the summary brochure, "A Rude Awakening from the American Dream," call toll-free 1-800-637-7455, ext. 4192.

SAVING FOR RETIREMENT

Currently, approximately 53% of all preretirees and 32% of all babyboomers are saving for retirement. Viewed another way, approximately 9.4 million pre-retirees and 51 million babyboomers are not currently saving for retirement. If this trend continues, tens of millions of Americans could be unprepared to fund their retirement years.



Base: 75 million babyboomers (age 25-44)
20 million preretirees (age 45-64)

Source: Fourth Annual Merrill Lynch Retirement Planning Survey



Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, NY 10281-1332

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Proxy Statement

Notice of the Annual
Meeting of Stockholders
to be held April 30, 1992

Merrill Lynch & Co., Inc.
Conference and Training Center
Plainsboro, New Jersey





March 19, 1992

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders to be held at 10:30 A.M., local time, on Thursday, April 30, 1992, at the Merrill Lynch & Co., Inc. Conference and Training Center, Plainsboro, New Jersey.

Information regarding the business of the meeting is set forth in the following formal Notice of Annual Meeting and Proxy Statement. There will be an opportunity for stockholders to ask questions about our business and to comment on any aspect of company affairs properly brought before the meeting.

We cannot stress strongly enough that the vote of every stockholder, regardless of the number of shares owned, is important. Therefore, after reading the Notice of Annual Meeting and Proxy Statement, even if you plan to attend the meeting, you are urged to complete and return promptly the enclosed form of proxy to ensure that your shares will be represented. A return envelope is enclosed for your convenience. Since mail delays may occur, it is important that the proxy be returned well in advance of the meeting. If you decide to attend the meeting and wish to vote your shares personally, you may revoke your proxy at any time before it is exercised. Merrill Lynch will admit to the meeting stockholders of record, persons holding proof of beneficial ownership or holding proxies, and any other persons that Merrill Lynch, in its sole discretion, may elect to admit.

We look forward to receiving your vote and seeing you at the meeting. Any stockholder requiring directions to the meeting, or who has a disability that may require special assistance, is asked to contact our Corporate Secretary, Gregory T. Russo, at 2 Broadway, 22nd Floor, New York, NY 10080-6022.

Sincerely,

WILLIAM A. SCHREYER
Chairman of the Board and
Chief Executive Officer

DANIEL P. TULLY
President and
Chief Operating Officer



Notice of Annual Meeting of Stockholders to be held April 30, 1992

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MERRILL LYNCH & CO., INC. ("ML & Co."), a Delaware corporation, will be held on Thursday, April 30, 1992, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey, for the following purposes:

(1) To elect 4 directors to the Board of Directors to hold office for a term of 3 years;

(2) To consider two stockholder proposals; and

(3) To transact such other business as properly may come before the Annual Meeting and any adjournment thereof.

Only holders of Common Stock of record on the books of ML & Co. at the close of business on March 3, 1992 are entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. A list of such stockholders will be available, as required by law, at the office of Merrill Lynch Asset Management located at 800 Scudders Mill Road, Plainsboro, New Jersey. The stock transfer books will not be closed.

Public notice of the date of the Annual Meeting was previously included in ML & Co.'s Quarterly Report on Form 10-Q for the period ended September 27, 1991, which was filed with the Securities and Exchange Commission on November 8, 1991, and in ML & Co.'s Third Quarter Report to stockholders mailed on November 26, 1991.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary

New York, N.Y.
March 19, 1992

STOCKHOLDERS ARE URGED TO VOTE, SIGN, AND DATE THE ENCLOSED FORM OF PROXY AND TO RETURN IT IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

The Proxy Statement for the Annual Meeting follows this page. For stockholders who have not previously been sent a copy, enclosed is the Annual Report of ML & Co. for 1991, which is not proxy soliciting material.

Merrill Lynch

Proxy Statement

Annual Meeting of Stockholders
April 30, 1992

March 19, 1992

World Financial Center
North Tower
New York, N.Y. 10281

This Proxy Statement is furnished in connection with the solicitation on behalf of the Board of Directors of Merrill Lynch & Co., Inc., a Delaware corporation ("ML & Co."), of proxies from holders of ML & Co. Common Stock, par value $1.33⅓ per share (the "Common Stock"), eligible to vote at the forthcoming Annual Meeting of Stockholders, and at any adjournment thereof, on the matters set forth in the foregoing Notice of Annual Meeting of Stockholders. The Annual Meeting will be held on Thursday, April 30, 1992, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey.

The close of business on March 3, 1992 has been fixed by the Board of Directors as the record date for determining the stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment thereof. On that date, there were 111,745,115 shares of Common Stock outstanding (excluding treasury shares), the holders thereof being entitled to one vote per share. To the knowledge of ML & Co., except as provided below, no person is the beneficial owner of more than 5% of the outstanding shares of Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
State Street Bank and Trust Company, Trustee ("State Street") 225 Franklin Street Boston, Massachusetts 02110 Merrill Lynch & Co., Inc. Employee Stock Ownership Plan (the "ESOP")	8,703,946(1)	7.79%
Other Merrill Lynch & Co., Inc. employee benefit plans	1,738,508(2)	1.56%
Other	1,137,224(3)	1.02%

(1) The amount shown is the number of shares of Common Stock that, as of March 3, 1992, were held by the ESOP but had not been allocated to participants; as of that date, an additional 3,987,234 shares of Common Stock allocated to participants were held by the ESOP. Participants have the right to direct the voting of allocated shares by State Street (the "Trustee") as a co-trustee of the ESOP. Subject to the provisions of the ESOP trust agreement, the Trustee is obligated to vote unallocated shares, and allocated shares for which it has not received directions, in the same proportion as directed shares are voted. The trust agreement also

contains provisions regarding the allocation of shares to participants, the vesting in shares of Common Stock by participants, and the disposition of shares.

(2) Information is as of March 3, 1992. Participants have the right to direct the voting of shares of Common Stock by the Trustee as a co-trustee of these plans. Subject to the provisions of the trust agreements relating to these employee benefit plans, the Trustee is obligated to vote shares for which it has not received directions in the same proportion as directed shares are voted. The trust agreements also contain provisions regarding the disposition of shares.

(3) Information concerning the amount and nature of beneficial ownership is as of December 31, 1991 and was supplied by State Street. As trustee or co-trustee for various collective investment funds for employee benefit plans, index accounts, and personal trust accounts not affiliated with ML & Co., State Street has sole power to vote or to direct the vote of 1,023,114 shares, sole power to dispose or to direct the disposition of 1,016,127 shares, and shared power to dispose or to direct the disposition of 2,000 shares.

The affirmative vote of a majority of the shares of Common Stock represented in person or by proxy at the Annual Meeting is required for all matters. All shares of Common Stock represented by valid proxies received pursuant to this solicitation and not revoked will be voted in accordance with the choices specified. Where no specification is made with respect to any item submitted to a vote, such shares will be voted for the election as directors of ML & Co. of the 4 persons named under the caption "Election of Directors," and against the stockholder proposals. Since the proxy confers discretionary authority to vote upon other matters that properly may come before the meeting, shares represented by signed proxies returned to ML & Co. will be voted in accordance with the judgment of the person or persons voting the proxies on any other matters that properly may be brought before the meeting.

The execution of a proxy will not affect a stockholder's right to attend the Annual Meeting and to vote in person. A stockholder who executes a proxy may revoke it at any time before it is exercised by giving notice to the Secretary of ML & Co. or by filing another proxy.

The expenses involved in preparation of proxy materials and the solicitation on behalf of the Board of Directors of proxies for the Annual Meeting will be borne by ML & Co. In addition to the solicitation of proxies by mail, solicitation may be made by certain directors, officers, and other employees of ML & Co. or of its subsidiaries in person or by telephone, telegraph, or other means of communication, for which no additional compensation will be paid, and by Georgeson & Co., Inc. for a fee not to exceed $18,000 plus expenses. ML & Co. will reimburse brokers, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a subsidiary of ML & Co., and other nominees for costs incurred by them in mailing soliciting materials to the beneficial owners of its stock in accordance with the rules of the New York Stock Exchange, Inc. ("NYSE").

The accounting firm of Deloitte & Touche has been selected by the Board of Directors, upon the recommendation of the Audit Committee of the Board, as independent public accountants of ML & Co. and its subsidiaries during the 1992 fiscal year. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting with the opportunity to make a statement, if they desire to do so, and to answer stockholders' questions.

ELECTION OF DIRECTORS

The Board of Directors of ML & Co. is divided into 3 classes. Each class serves for a 3-year term and one class of directors is elected each year. During the 1991 fiscal year, the Board of Directors met 8 times.

The Board of Directors proposes the election, as directors, of the 4 persons named below, to hold office for a term of 3 years, ending in 1995. The remaining 8 directors named below will continue to serve in accordance with their previous elections. It is intended that shares represented by proxies received in response to this Proxy Statement will be voted for the election of the nominees listed below unless otherwise directed by stockholders in their proxies. While it is not anticipated that any of the nominees will be unable to take office, if that is the case, such shares will be voted in favor of the other person or persons proposed by the Board of Directors.

On February 24, 1992, William A. Schreyer, Chairman and Chief Executive Officer of ML & Co. announced that Daniel P. Tully, currently President and Chief Operating Officer, will assume the additional title and responsibilities of Chief Executive Officer on May 1, 1992. The Board of Directors of ML & Co. elected Mr. Tully to his new post, effective on that date, at its regular February meeting. Mr. Schreyer will remain as Chairman of the Board until his retirement on June 28, 1993, and he will also continue as Chairman of the Executive Committee and Finance Committee of the Board during this period.

The following information is provided concerning directors of ML & Co., including the nominees for election as directors. The information as to ownership of Common Stock and certain affiliations is based upon information received from the directors.

Name, Age and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 6, 1992(2)
NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS		
For a 3-Year Term Expiring in 1995		
Robert A. Hanson, 67 Corporate Director (3); Chairman of the Board of Deere & Company, a manufacturer, distributor, and financier of farm and industrial equipment, from October, 1982 to June, 1990; Chief Executive Officer of that company from August, 1982 to August, 1989.	1984	200
Earle H. Harbison, Jr., 63 (3) President and Chief Operating Officer of Monsanto Company, a provider of chemical and agricultural products, pharmaceuticals, sweeteners, industrial process controls, and man-made fibers, since May, 1986.	1987	1,700(4)

Name, Age and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 6, 1992(2)
William A. Schreyer, 64 (3) Chairman of the Board since April, 1985 and Chief Executive Officer since July, 1984.	1976	692,947(5)
Daniel P. Tully, 60 President and Chief Operating Officer since July, 1985; Chairman of the Board, President, and Chief Executive Officer of MLPF&S since July, 1985.	1985	534,108(5)(6)
MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE		
Term Expiring in 1993		
John F. Burlingame, 69 Corporate Director (3); Vice Chairman of the Board and Executive Officer of General Electric Company, an electrical products company, from September, 1979 to January, 1985.	1985	500
Jill K. Conway, 57 (3) Visiting Scholar, Massachusetts Institute of Technology since 1985; President of Smith College from July, 1975 to June, 1985.	1978	717
William J. Crowe, Jr., 67 (3) Professor of Geopolitics at the University of Oklahoma since January, 1990; Counselor, The Center for Strategic and International Studies, an economic and political consulting organization, since February, 1990; Admiral, United States Navy (Retired); Chairman of the Joint Chiefs of Staff, the principal military advisors to the President of the United States of America, from October, 1985 to September, 1989.	1989	100
Robert P. Luciano, 58 (3) Chairman of the Board of Schering-Plough Corporation, a health and personal care products company, since January, 1984 and Chief Executive Officer since February, 1982.	1989	500
MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE		
Term Expiring in 1994		
William O. Bourke, 64 (3) Chairman of the Board of Reynolds Metals Company, a producer of aluminum products, since April, 1988 and Chief Executive Officer since April, 1986; President of that company from January, 1983 to April, 1988.	1987	1,000

Name, Age and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of March 6, 1992(2)
Stephen L. Hammerman, 53 Executive Vice President since June, 1985; General Counsel since October, 1984; Chief Administrative Officer from June, 1985 to October, 1987; General Counsel of MLPF&S since March, 1981.	1985	239,165(5)
John J. Phelan, Jr., 60 Corporate Director (3); Chairman and Chief Executive Officer of the New York Stock Exchange, Inc. from May, 1984 to December, 1990.	1991	1,000
Charles A. Sanders, M.D., 60 (3) Chairman of the Board of Glaxo Inc., a pharmaceutical company, since January, 1992 and Chief Executive Officer since July, 1989; Vice Chairman of Squibb Corporation, a pharmaceutical and health care products company, from March, 1988 to July, 1989; Executive Vice President of that company from January, 1984 to March, 1988.	1987	1,000
All current directors and officers of ML & Co. as a group, including those named above		3,752,808(5)(7)

(1) Unless otherwise indicated, the offices listed are of ML & Co.

(2) All directors, nominees, and officers have sole investment power and sole voting power over shares listed, except as indicated in notes 4, 6, and 7, below. The percentage of shares beneficially owned by any one director or nominee did not exceed 1% of the outstanding Common Stock. All current directors, nominees, and officers of ML & Co. as a group owned 3.3% of the outstanding Common Stock.

(3) The following directors and nominees also hold directorships in, or other affiliations with, the following companies:

William O. Bourke—Reynolds Metals Company; Premark International, Inc.; and Sonat Inc.
John F. Burlingame—Eastman Kodak Company and Hershey Foods Corporation.
Jill K. Conway—The Allen Group, Inc.; Arthur D. Little, Inc.; Colgate-Palmolive Company; and NIKE, Inc.
William J. Crowe, Jr.—General Dynamics Corporation; Norfolk Southern Corporation; Pfizer Inc.; and Texaco Inc.
Robert A. Hanson—The Dun & Bradstreet Corporation; Procter & Gamble Company; R.R. Donnelley & Sons Company; and Texas Instruments Incorporated.
Earle H. Harbison, Jr.—Monsanto Company; Angelica Corporation; and National Life Insurance Company.
Robert P. Luciano—Schering-Plough Corporation; Allied-Signal, Inc.; Borden, Inc.; and C.R. Bard, Inc.
John J. Phelan, Jr.—Avon Products, Inc.; Eastman Kodak Company; JWP Inc.; Metropolitan Life Insurance Company; and Sonat Inc.

Charles A. Sanders, M.D.—Glaxo Holdings p.l.c.; Morton International, Inc.; and Reynolds Metals Company.

William A. Schreyer—Schering-Plough Corporation.

(4) The number of shares shown for Mr. Harbison includes 1,000 shares held by his wife, as to which he may be deemed to have shared investment power and shared voting power. He has expressly disclaimed beneficial ownership of such 1,000 shares.

(5) Beneficial ownership shown for Messrs. Schreyer, Tully, and Hammerman and for the group includes Restricted Shares granted under the Long-Term Incentive Compensation Plan, Restricted Shares and shares issued in payment for Performance Shares granted under the Equity Capital Accumulation Plan, and Book Value Shares purchased under the Incentive Equity Purchase Plan; these plans are described below under the caption "Compensation Pursuant to Plans." Beneficial ownership shown for the following individuals and group also includes the indicated number of shares of Common Stock that may be purchased upon the exercise (presently or within 60 days) of Stock Options granted under the Long-Term Incentive Compensation Plan: William A. Schreyer (337,500); Daniel P. Tully (278,750); Stephen L. Hammerman (110,000); and all current directors and officers of ML & Co. as a group (1,798,490).

(6) Beneficial ownership for Mr. Tully includes 3,800 shares of Common Stock held in a trust as to which he has shared voting and investment power.

(7) Beneficial ownership includes 5,785 shares of Common Stock held by a charitable foundation of which 4 officers act as trustees and as to which they have shared voting and investment power.

James H. Lorie, age 70, who has served as a director since 1980, will retire and not stand for re-election at the 1992 Annual Meeting of Stockholders. He serves as a director of Acorn Fund, Inc. and Pittway, Inc. As of March 6, 1992, Mr. Lorie was the beneficial owner, with sole voting and investment power, of 3,000 shares of Common Stock.

Committees of the Board of Directors

In addition to an Executive Committee and a Finance Committee, ML & Co. has standing Audit, Management Development and Compensation, and Nominating Committees of the Board of Directors.

The Audit Committee, which consists of Messrs. Burlingame, who chairs the committee, Crowe, Lorie, and Sanders, held 5 meetings during the 1991 fiscal year. This committee has performed the following functions, among others: monitoring ML & Co.'s system of internal accounting controls and overseeing and evaluating the internal audit function; recommending the appointment and monitoring the performance, independence, and fees of ML & Co.'s independent public accountants and monitoring professional services they provide; reviewing the scope of the annual audit with the independent public accountants and reviewing their reports to Management; and reviewing ML & Co.'s annual consolidated financial statements.

The Management Development and Compensation Committee, which consists of Mrs. Conway, who chairs the committee, and Messrs. Bourke and Phelan, held 7 meetings during the 1991 fiscal year. This committee has performed the following functions, among others: reviewing and recommending employee compensation programs, policies, and practices, including salary, cash incentive, stock bonus, stock purchase, and other retirement, compensation and health and welfare programs; making grants under the Equity Capital Accumulation Plan and under the Long-Term Incentive Compensation Plan, and establishing benchmark awards for executive officers under the ROE Incentive Compensation Plan, all of which are described below under the caption "Compensation Pursuant to Plans"; determining the salary and incentive compensation of the Chairman of the Board, the President, and all other officers who are ML & Co. directors; reviewing and approving or modifying recommendations for salaries and incentive compensation for other members of senior management; and periodically reviewing management development programs and executive succession plans.

The Nominating Committee, which consists of Mr. Hanson, who chairs the committee, Mrs. Conway, and Messrs. Burlingame, Harbison, and Schreyer, held 1 meeting and had a number of discussions during the 1991 fiscal year. This committee has performed the following functions: seeking potential candidates to serve on the Board of Directors with a view toward a desirable balance of expertise among Board members and recommending to the Board of Directors membership of committees of the Board and nominees to fill vacancies on the Board. The Nominating Committee will consider nominees recommended by stockholders. Those wishing to submit recommendations for the 1993 Annual Meeting of Stockholders should write to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 22nd Floor, 2 Broadway, New York, New York 10080-6022.

FIRST STOCKHOLDER PROPOSAL

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Ave. N.W., Suite 215, Washington, D.C. 20037, holding 100 shares of Common Stock, has given notice of her intention to propose the following resolution at the Annual Meeting:

> "RESOLVED: That the stockholders of Merrill Lynch, assembled in Annual Meeting in person and by proxy, hereby request the Board of Directors to take the necessary steps to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

The following statement has been submitted by Mrs. Davis in support of the resolution:

> "REASONS: Many states have mandatory cumulative voting, so do National Banks."
>
> "In addition, many corporations have adopted cumulative voting."
>
> "Last year the owners of 14,459,812 shares, representing approximately 19.2% of shares voting, voted FOR this proposal."
>
> "If you AGREE, please mark your proxy FOR this resolution."

The Board of Directors recommends a vote AGAINST the adoption of this proposal.

This is the seventh consecutive year that Mrs. Davis has submitted the same proposal, which has been consistently opposed by the Board of Directors and defeated by stockholders every time by a substantial majority of the votes cast.

The reasons the Board of Directors opposes this resolution are the same as those stated in the Proxy Statements for the prior Annual Meetings at which the proposal was submitted. Under the General Corporation Law of Delaware, the state in which ML & Co. is incorporated, cumulative voting is permissible only if provided for in a corporation's certificate of incorporation. The general rule, which is followed by most large corporations, is that each director must be elected by the affirmative vote of the majority of shares present in person or represented by proxy.

The Board of Directors would recommend a change in the method of stockholder vote only if another method would better serve the interests of the stockholders as a whole. To the contrary, cumulative voting would give stockholders who seek to support a special interest group the potential to elect a director representing the interests of that group. Directors so elected may view themselves as representatives of the group that elected them and feel obligated to represent the group's interests, regardless of whether the furtherance of those interests would benefit all stockholders generally. While this would be likely to introduce an element of discord on a board of directors, election of directors by simple majority vote is designed to produce a board of directors that views its accountability as being to the stockholders at large. Accordingly, the Board of Directors regards the proposed change as not only serving no useful purpose but as being contrary to the best interests of all ML & Co. stockholders.

For the reasons stated above, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST the adoption of this proposal.

SECOND STOCKHOLDER PROPOSAL

Mr. John A. Gearhart, 1010 Park Avenue, Fayetteville, Arkansas 72701, who owns 195 shares of Common Stock, has given notice of his intention to propose for adoption at the Annual Meeting the following proposal:

> "It is recommended that Merrill Lynch's Board of Directors provide its share owners with its objectives and activities to correct the anomalies of the U.S. capital formation process. Specifically, it is requested that Merrill Lynch help correct the high leverage in the stock index futures market, basket trading and "mathematics trading" which currently make a mockery of investment research and capital formation."

The following statement has been submitted by Mr. Gearhart in support of the proposal:

> "Merrill Lynch, as a leader in the investment community, must help provide basic directions for a healthy market situation. It shall provide its owners with information to gain their understanding and support within the industry and with government agencies. Favorable long term capital formation conditions must be recognized as the standard rather than short-sighted speculative and non-productive actions. The trading tail is often wagging the investment animal. Share owners look to their management standards for guidance."

The Board of Directors recommends a vote AGAINST the adoption of this proposal.

The Board of Directors opposes this proposal because it is so vague and indefinite that any action taken to implement it, if adopted, is likely to be different from the action subjectively envisioned under the proposal or by the stockholders who voted in its favor.

In addition, ML & Co. has a longstanding commitment to protecting the integrity and liquidity of the markets, maintaining investor confidence, and working with Congress and our regulators to achieve these goals. ML & Co. has testified before Congress concerning the imposition of adequate control over excess volatility in the marketplace, and ML & Co. has endorsed legislative and regulatory initiatives relating to that issue. ML & Co. has also supported the New York Stock Exchange's initiation of "circuit breakers" which protect against precipitous movements in securities prices. ML & Co. will continue to participate in the development of legislative and regulatory initiatives concerning the securities markets.

For the reason stated above, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST the adoption of this proposal.

EXECUTIVE COMPENSATION

Cash Compensation

The following table shows compensation for services rendered in all capacities to ML & Co. and its subsidiaries during the 1991 fiscal year for each of the 5 most highly compensated executive officers of ML & Co. as to whom total cash compensation exceeded $60,000 during that period and for all persons who were executive officers of ML & Co. at any time during that period, as a group. Information is included only for the portion of the 1991 fiscal year during which such persons held positions as executive officers of ML & Co.

Name of Individual or Number in Group	Capacities in Which Served	Cash Compensation*
William A. Schreyer	Chairman of the Board and Chief Executive Officer.	$ 4,500,000
Daniel P. Tully	President and Chief Operating Officer; Chairman of the Board, President, and Chief Executive Officer of MLPF&S.	3,825,000
Barry S. Friedberg	Executive Vice President, Investment Banking Group.	3,150,000
John L. Steffens	Executive Vice President, Private Client Group.	3,150,000
Roger M. Vasey	Executive Vice President, Debt Markets Group.	3,150,000
All executive officers as a group (13 persons), including those named above		33,309,823

* Amounts shown include salaries and cash awards with respect to the 1991 fiscal year under cash incentive compensation plans but do not include awards under the ROE Incentive Compensation Plan, which are described under the caption "Compensation Pursuant to Plans."

All compensation paid to executive officers during the 1991 fiscal year other than cash and compensation pursuant to plans, described below, does not exceed the minimum amounts required to be reported pursuant to Securities and Exchange Commission rules.

Compensation Pursuant to Plans

Information is included only for the portion of the 1991 fiscal year during which the indicated persons held positions as executive officers of ML & Co.

Cash Incentive Compensation. Cash incentive compensation plans are maintained for key employees of ML & Co. and its participating subsidiaries. The individuals who are to receive awards and the amount of such awards are determined or approved each year by the Management Development and Compensation Committee of the ML & Co. Board of Directors (the "Committee") based on the recommendations of the management of ML & Co. Annual cash incentive awards are based on an employee's rank and performance and the overall performance of ML & Co. or groupings of one or more subsidiaries or units thereof during the most recently completed fiscal year. All amounts paid

under these plans with respect to the 1991 fiscal year to the executive officers named in the Cash Compensation table and to all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group are included in that table.

ROE Incentive Compensation Plan. In order to provide select employees with a strong incentive to achieve its goal of improving corporate return on equity ("ROE"), ML & Co. adopted in 1990 the Merrill Lynch & Co., Inc. ROE Incentive Compensation Plan (the "ROE Plan"), which provided for cash payments to participants in 1991 and 1992 if certain ROE goals for 1990 and 1991, respectively, were achieved. Participants generally consisted of employees of ML & Co. and its subsidiaries (i) who received incentive compensation payments with respect to 1989 (a "1989 VICP payment") or were institutional account executives who received payments with respect to their performance in 1989 ("1989 AE Compensation") (in each case other than pursuant to a contractual promise or in excess of a contractually promised amount) and (ii) who were notified of their participation in the ROE Plan.

A benchmark award for each participant equal to 15 percent of his or her 1989 VICP payment or 1989 AE Compensation was established (except for then current executive officers, whose benchmark awards varied from 30 to 50 percent of their 1989 VICP payments). A percentage (ranging from 0 to 300 percent) of each participant's benchmark award was paid to such participant with respect to 1990 and 1991, depending on the ROE level achieved by ML & Co. during each such year. Pursuant to the ROE requirements established for 1990, 19 percent of each participant's benchmark award was paid in February, 1991, and pursuant to the ROE requirements established for 1991, 270 percent of each participant's benchmark was paid in February, 1992. A participant whose employment terminated during 1990 (other than because of a reduction in force after March 31, 1990, death, disability, or retirement) forfeited any right to receive a payment under the ROE Plan. A participant (or his or her beneficiary) whose employment terminated during 1990 because of a reduction in force after March 31, 1990, death, disability, or retirement received a payment with respect to 1990 only; payment with respect to 1991 was forfeited. A participant whose employment terminated during 1991 (other than because of a reduction in force after February 15, 1991, death, disability, or retirement) forfeited any right to receive a payment under the ROE Plan with respect to 1991. A participant (or his or her beneficiary) whose employment terminated during 1991 because of a reduction in force after February 15, 1991, death, disability, or retirement received a payment with respect to 1991.

With respect to the fiscal year ended December 27, 1991, the following cash amounts were paid under the ROE Plan in February, 1992 to the following executive officers named in the Cash Compensation table and to the following group: William A. Schreyer ($1,350,000); Daniel P. Tully ($1,147,500); Barry S. Friedberg ($1,012,500); John L. Steffens ($742,500); Roger M. Vasey ($810,000); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group ($7,584,975).

Long-Term Incentive Compensation Plan. The Merrill Lynch & Co., Inc. Long-Term Incentive Compensation Plan (the "Long-Term Plan") provides for grants of "Performance Shares," "Performance Units," "Restricted Shares," "Restricted Units," "Stock Options," "Stock Appreciation Rights," and "Other ML & Co. Securities." Participants in the Long-Term Plan are selected from among officers and other salaried, key employees of ML & Co. and its subsidiaries. The Committee

determines, after receiving the recommendations of the management of ML & Co., the employees to whom grants are to be made, and the timing, size, and other terms of the grant.

Performance Shares may be granted for, and outstanding during, a Performance Period established in relation to such Performance Shares of not less than 1 nor more than 10 consecutive ML & Co. fiscal years. Performance objectives are established for each Performance Period and the number of Performance Shares actually payable at the end of the applicable Performance Period will depend on the extent to which performance objectives have been met. The Committee may also establish a Restricted Period applicable to such Performance Shares, which would begin at the end of the Performance Period. At the end of a Performance Period, shares of Common Stock equal to the number of Performance Shares payable will be delivered to the participant unless a Restricted Period was established at the time of grant, in which event such shares of Common Stock will be registered in the name of the participant but will be held by ML & Co. for the participant's account and, although nonforfeitable, will be restricted as to transferability until the end of the Restricted Period.

Performance Units are similar to Performance Shares but are payable in cash after the end of the applicable Performance Period in an amount based upon the fair market value of a share of Common Stock during the second calendar month following the end of the Performance Period, unless some other date or period is established by the Committee at the time of grant. In addition, the Committee may provide, with respect to Performance Shares or Performance Units granted to a participant, that, during a Performance Period, the participant shall be paid cash amounts equal to dividends paid on an equivalent number of shares of Common Stock.

Restricted Shares are shares of Common Stock, which at the time of grant are issued for the benefit of the participant to whom the grant is made and who may or may not be required to pay consideration therefor. Such participant has all the rights of a stockholder in relation to the Restricted Shares (including the right to receive dividends), except that, during the designated Restricted Period, the participant is not entitled to delivery of a stock certificate and such Restricted Shares cannot be transferred or encumbered. At the time of grant of Restricted Shares, the Committee establishes a Vesting Period, consisting of not less 12 nor more than 60 consecutive months, and a Restricted Period, consisting of 12 or more consecutive months (but in no event of shorter duration than the Vesting Period applicable to the same Restricted Shares). At the end of the applicable Restricted Period, the participant receives shares of freely transferable Common Stock equal in number to the number of Restricted Shares granted.

Restricted Units are similar to Restricted Shares but are payable in cash at the end of the applicable Vesting Period in an amount based upon the fair market value of one share of Common Stock on the last day of the Vesting Period. During the Vesting Period, a participant with Restricted Units is paid cash amounts equal to dividends paid on an equivalent number of shares of Common Stock.

The Long-Term Plan also provides for the grant of Stock Options to purchase shares of Common Stock, which may be Incentive Stock Options ("ISOs") or Nonqualified Stock Options ("NSOs"). At the time of grant, the Committee establishes the exercise price (which, in the case of ISOs, may not be less than 100%, and in the case of NSOs not less than 50%, of the fair market value of a share of Common Stock on the date of grant), the expiration date (which in no event shall be more than

10 years from the date of grant), and the times and installments in which the Stock Options may be exercised. Stock Appreciation Rights may be granted in connection with Stock Options or independently. Stock Appreciation Rights granted in connection with Stock Options will be subject to the same terms and conditions, and exercisable only to such extent and at such times, as the related Stock Option. Upon exercise of a Stock Appreciation Right granted in connection with a Stock Option, the related Stock Option will be surrendered and the participant will receive an amount equal to the excess of the fair market value of one share of Common Stock on the day preceding exercise over the Stock Option exercise price, times the number of shares called for by the Stock Option, or portion thereof, surrendered. Upon exercise of a Stock Appreciation Right granted independently of a Stock Option, a participant will receive an amount equal to the excess of the fair market value of one share of Common Stock on the day preceding the day the Stock Appreciation Right is exercised over the fair market value of one share of Common Stock on the day the Stock Appreciation Right was granted, or such other price determined by the Committee at the time of grant, which shall in no event be less than 50% of the fair market value on the date of grant. Payments to participants upon their exercise of Stock Appreciation Rights may be in cash or shares of Common Stock, or a combination of cash and shares, at the Committee's discretion.

Subject to exceptions for death, disability, and retirement, a participant will forfeit (i) all Performance Shares and Performance Units upon termination of employment prior to the end of a Performance Period, (ii) all Restricted Shares and Restricted Units upon termination of employment prior to the end of a Vesting Period, and (iii) all unexercised Stock Options and Stock Appreciation Rights upon termination of employment, unless the Committee determines otherwise.

Other ML & Co. Securities, or rights or options to purchase such Other ML & Co. Securities, may be granted on such terms and conditions as the Committee shall determine, including the period such rights or options may be exercised, the nature and terms of payment of consideration therefor, any terms and conditions of repurchase by ML & Co., any interest or dividend rights attached thereto, any applicable conversion or exchange features and rates, and the consequences, if any, of a participant's termination of employment.

The Long-Term Plan also provides that, in the event of a Change in Control of ML & Co. (as defined below in this paragraph) and a subsequent termination of the participant's employment without cause or termination of employment by the participant for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits, payment will be made for Performance Shares, Performance Units, Restricted Shares, Restricted Units, Stock Options, Stock Appreciation Rights, Other ML & Co. Securities and options or rights to purchase Other ML & Co. Securities granted to that participant as if all Performance Periods, Vesting Periods, and Restricted Periods had ended and all conditions of exercisability had been met. Payment for Performance Shares, Performance Units, Restricted Shares, and Restricted Units will consist of a cash amount equal to the number of Performance Shares and Performance Units payable and the number of Restricted Shares and Restricted Units held by or for the benefit of the participant, multiplied by the fair market value of a share of Common Stock on the day the participant's employment is terminated or, if higher, by the highest fair market value during the 90-day period preceding the Change in Control. In the case of Stock Options, or options or rights to purchase Other ML & Co. Securities, payment will consist of a cash amount equal to, for each share of Common Stock underlying the Stock Option or each Other

ML & Co. Security, as the case may be, the excess of the fair market value of one share of Common Stock (or Other ML & Co. Security, as the case may be) on the day the participant's employment is terminated, or, if higher, the highest fair market value during the 90-day period preceding the Change in Control, over the exercise price for such Stock Options or option or right to purchase Other ML & Co. Securities. In the case of a Stock Appreciation Right, payment will consist of a cash amount equal to the excess of the fair market value of a share of Common Stock on the day the participant's employment is terminated, or, if higher, the highest fair market value during the 90-day period preceding the Change in Control, over one of the following amounts: if the Stock Appreciation Right was granted in connection with a Stock Option, the Stock Option exercise price; or if the Stock Appreciation Right was granted independently of a Stock Option, the fair market value of one share of Common Stock on the date such Stock Appreciation Right was granted or such other price determined by the Committee at the time of grant. In the case of an Other ML & Co. Security (where there is no outstanding option or right relating thereto), payment will consist of a cash amount equal to the fair market value of an Other ML & Co. Security on the day the participant's employment is terminated, or, if higher, the fair market value during the 90-day period preceding the Change in Control. A "Change in Control" of ML & Co. generally includes: (i) the acquisition by any person of the beneficial ownership of securities representing 30 percent or more of the combined voting power of ML & Co.'s then outstanding voting securities; (ii) a change in the composition of the Board of Directors such that, within a period of 2 consecutive years, individuals who at the beginning of such 2-year period constituted the Board of Directors and any new directors elected or nominated by at least 3/4 of the directors who were either directors at the beginning of the 2-year period or similarly elected, cease for any reason to constitute at least a majority of the Board of Directors; or (iii) the entering into of an agreement, the consummation of which would result in a Change in Control.

In January, 1991, annual grants of Nonqualified Stock Options were made to eligible employees. The following executive officers who are named in the Cash Compensation table and the following group were granted such Stock Options to purchase the indicated number of shares of Common Stock: William A. Schreyer (300,000); Daniel P. Tully (255,000); Barry S. Friedberg (80,000); John L. Steffens (80,000); Roger M. Vasey (80,000); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group (1,309,000). Such Stock Options have an exercise price of $21.375, which was 100 percent of the market value of a share of Common Stock on the date of grant, and are exercisable through January 15, 2001 as follows: 25 percent after 1 year; 50 percent after 2 years; 75 percent after 3 years; and 100 percent after 4 years. No other grants of Stock Options were made to any executive officer of ML & Co. during the fiscal year ended December 27, 1991. During the fiscal year ended December 27, 1991, one executive officer realized a net value (market value on the date of exercise less the exercise price) of $203,125 with respect to the exercise of options granted under the Long-Term Plan.

Equity Capital Accumulation Plan. The Merrill Lynch & Co., Inc. Equity Capital Accumulation Plan ("ECAP") provides for grants of both "Performance Shares" and "Restricted Shares" to selected full-time salaried employees of ML & Co. or its subsidiaries, who pay no cash consideration therefor. Recipients of Performance Share grants are selected from employees who are recognized as members of executive or senior management. Recipients of Restricted Share grants are selected from employees who are recognized as members of general management or as professional

employees or as being in a position to make a contribution to ML & Co. either as members of executive or senior management or otherwise. Selection from among eligible employees of those who are to receive Performance Share or Restricted Share grants is based on factors such as an employee's level of responsibility, performance, and performance potential. The recipients of Performance Shares and Restricted Shares, the amounts awarded to each, the performance and restricted periods and, in the case of Performance Shares, performance goals, are determined by the Committee based on the recommendation of the management of ML & Co.

A Performance Share is deemed to be equivalent in fair market value to one share of Common Stock. After the end of a Performance Period, which may consist of not less than 3 nor more than 5 consecutive fiscal years, depending upon the attainment at the end of such period of performance goals, shares of Common Stock equal to one-half of the number of Performance Shares payable will be delivered to holders of Performance Shares, and the value of the remaining half of the Performance Shares payable will be paid in cash. Subject to exception by the Committee, in the event of termination for any reason other than death, disability, and retirement, the employee forfeits all of the Performance Shares granted to him or her and all right to receive payment therefor. In the event of a Change in Control (generally as defined above under the caption "Long-Term Incentive Compensation Plan") of ML & Co. and a subsequent termination of the participant's employment without cause or termination of employment by the participant for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits, all Performance Shares granted to that participant will be paid in cash in a lump sum, or in installments if before termination the participant elects to be paid in installments. Performance Shares granted before January 1, 1988 will be paid as if all performance goals were met, and, as a result of an amendment in 1988, Performance Shares granted on or after January 1, 1988 will be paid by applying performance objectives over the portion of the Performance Period completed. Such Performance Shares will be valued at the fair market value of Common Stock on the day of termination or, if higher, at the highest fair market value of Common Stock during the 90-day period before the Change in Control.

Restricted Shares are shares of Common Stock, which at the time of grant are issued to or for the benefit of the recipient, and such recipient has all the rights of a stockholder in relation thereto; however, during the designated restricted period, which cannot be less than 36 nor more than 60 consecutive months, for such Restricted Shares, (i) the recipient is not entitled to delivery of a stock certificate, (ii) such Restricted Shares cannot be transferred or encumbered, and (iii) except in the event of death, disability, or retirement, such Restricted Shares will be forfeited if employment terminates prior to the end of the restricted period. In the event of a Change in Control (generally as defined above under the caption "Long-Term Incentive Compensation Plan") of ML & Co. and a subsequent termination of the participant's employment without cause or termination of employment by the participant for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits, all Restricted Shares granted to that participant will be paid in cash in a lump sum, unless before termination the participant elects to be paid in installments. Such Restricted Shares will be valued at the fair market value of Common Stock on the day of termination or, if higher, at the highest fair market value of Common Stock during the 90-day period before the Change in Control.

In early 1992, there was a payment for Performance Shares granted in 1988 based on the Performance Period consisting of the fiscal years 1988 through 1991 to the following executive officers who are named in the Cash Compensation table and to the following group: William A. Schreyer(21,000 shares and $1,201,351); Daniel P. Tully (16,800 shares and $961,081); John L. Steffens (10,500 shares and $600,676); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group (79,800 shares and $4,565,136). During the fiscal year ended December 27, 1991, the indicated number of Restricted Shares granted to the following executive officers who are named in the Cash Compensation table and the following group were freed of restrictions: William A. Schreyer (79,350 shares); Daniel P. Tully (63,595 shares); Barry S. Friedberg (32,890 shares); John L. Steffens (45,565 shares); Roger M. Vasey (21,930 shares); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group (443,285 shares). The foregoing amounts include the removal of restrictions on Restricted Shares granted in connection with the relinquishment in 1987 of unvested career compensation units then outstanding under the ML & Co. Career Compensation Plan.

Management Capital Accumulation Plan. In 1984, ML & Co. adopted the Merrill Lynch & Co., Inc. Management Capital Accumulation Plan (the "MCAP Plan") as part of its compensation program for retail office managers. Under the MCAP Plan, employees, who are selected by the Committee based on the recommendations of management, are granted "MCAP Units" that are payable at the end of the "MCAP Period" established in relation thereto in an equivalent number of shares of Common Stock. During an MCAP Period, which may not be less than 60 nor more than 84 consecutive months, MCAP Units are credited with an amount equal to the cash dividend on an equivalent number of shares of Common Stock on the payment date for such dividend, and, on the next business day, such dividend equivalents are converted into additional MCAP Units by dividing the aggregate amount of such dividends by the fair market value of a share of Common Stock on such date. MCAP Units are forfeited if the employee terminates employment for reasons other than death, disability, or retirement and such termination is not approved. All MCAP Units are paid in the event of termination by reason of death, disability, or retirement. The MCAP Plan also provides that, in the event of a Change in Control (generally as defined under the caption "Long-Term Incentive Compensation Plan") of ML & Co. and a subsequent termination of the participant's employment without cause or termination of employment by the participant for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits, all MCAP Units granted to that participant will be paid in cash in a lump sum, unless before termination the participant elects to be paid in installments. Such MCAP Units will be valued at the fair market value of Common Stock on the day of termination or, if higher, at the highest fair market value of Common Stock during the 90-day period before the Change in Control. During each fiscal quarter after a Change in Control, for each MCAP Unit, there will be credited to the MCAP Account of each participant who remains in the employ of ML & Co. or one of its subsidiaries an amount at least equal to the cash dividend paid on a share of Common Stock for the fiscal quarter prior to the Change in Control, which will be converted into MCAP Units or earn appreciation at a set rate. ML & Co. may offer employees who are granted MCAP Units the right to defer payment thereof.

During the fiscal year ended December 27, 1991, one executive officer was paid 1,112 shares of Common Stock with respect to MCAP Units payable.

1986 Employee Stock Purchase Plan. The 1986 Merrill Lynch & Co., Inc. Employee Stock Purchase Plan (the "Stock Purchase Plan") is designed to qualify as an employee stock purchase plan under the Internal Revenue Code of 1986, as amended (the "Code"). Eligible employees may enroll in the plan once each year. On each designated quarterly investment date, whole shares and fractional interests in shares of Common Stock are automatically purchased for participants, with funds accumulated through regular payroll deductions of up to 10 percent of their annual eligible compensation, up to a maximum payroll deduction of $21,250, at a purchase price per share equal to 85 percent of the fair market value of the Common Stock on such date. Virtually all employees of ML & Co. and its designated subsidiaries, employed continuously since the beginning of the year in which an annual offering commences, other than certain part-time employees, are eligible to participate in the Stock Purchase Plan.

During the fiscal year ended December 27, 1991, the following executive officers who are named in the Cash Compensation table and the following group purchased the following number of shares under the Stock Purchase Plan at the following average price per share: Daniel P. Tully (660 shares; $32.19 per share); Barry S. Friedberg (454 shares; $35.11 per share); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group (1,318 shares; $30.91 per share).

Incentive Equity Purchase Plan. Pursuant to the Merrill Lynch & Co., Inc. 1978 Incentive Equity Purchase Plan, eligible employees are offered an opportunity to purchase shares of Common Stock at a price equal to the book value of such shares as of the end of the most recently completed fiscal quarter ("Book Value Shares"). Offerees, including executive officers of ML & Co., are periodically selected by the Committee upon the recommendation of the management of ML & Co. from employees who perform such functions or discharge such responsibilities that they merit consideration as selected employees. Shares are registered in the purchaser's name and are entitled to full dividend and voting rights. The transfer of such shares is restricted. At the request of each such employee, however, ML & Co. will either exchange the employee's shares for freely transferable shares of Common Stock, the number of which is determined by the ratio (not to exceed one) of book value to the market value of Common Stock at the time the Book Value Shares were originally sold to the employee, or, provided the Book Value Shares have been held by the employee for more than 6 months, repurchase such shares at their then book value. Book Value Shares must be resold to ML & Co. upon termination of employment.

During the fiscal year ended December 27, 1991, there were no purchases, sales, or exchanges of Book Value Shares by any executive officer.

401(k) Savings & Investment Plan. The Merrill Lynch & Co., Inc. 401(k) Savings & Investment Plan (the "Savings Plan"), which is intended to be qualified under Section 401(k) of the Code, enables participants to increase their retirement savings through tax-deferred contributions. All employees of ML & Co. and participating affiliates, other than employees in certain classifications designated by the Savings Plan's administrative committee, who have completed at least one year of service are entitled to participate. Participants may elect to defer up to 15 percent of their annual eligible compensation (such compensation not to exceed $222,220 for 1991, $228,860 for 1992, and thereafter as adjusted annually by the Internal Revenue Service for cost of living increases) up to the maximum deferral permitted under Federal law ($8,475 for the 1991 plan year, $8,728 for the

1992 plan year, and thereafter as adjusted annually by the Internal Revenue Service for cost of living increases). Contributions equal to one half of the first 4 percent of eligible compensation deferred by the participant are made by ML & Co. up to a maximum of $1,500 for full plan years. No ML & Co. contributions are made for a plan year for participants who at any time during the plan year participate in the Stock Purchase Plan. Employees who enrolled in the Savings Plan simultaneously with its adoption effective October 1, 1987 are 100 percent vested in ML & Co. contributions; subsequent participants are vested in ML & Co. contributions over a 5-year period, not including service prior to October 1, 1987, or upon attaining age 65, the normal retirement age under the Savings Plan. Participants can elect the manner in which all contributions under the Savings Plan are invested from among a number of investment alternatives, including funds for which Merrill Lynch Investment Management, Inc. (doing business as Merrill Lynch Asset Management), a subsidiary of ML & Co., or one of its subsidiaries ("MLAM") is the manager or investment adviser, unit investment trusts sponsored by MLPF&S, and Common Stock. Amounts are distributed upon retirement, death, or other termination of employment generally payable in a single sum. Withdrawals during employment are permitted subject to strict Savings Plan and Code limitations.

For the fiscal year ended December 27, 1991, the indicated amounts were received by the following executive officers who are named in the Cash Compensation table and by the following group as vested ML & Co. contributions in connection with the Savings Plan: William A. Schreyer ($1,500); John L. Steffens ($1,500); Roger M. Vasey ($1,500); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group ($15,000).

Retirement Program. The defined contribution retirement program was established in 1989. It consists of two plans: the Retirement Accumulation Plan (the "RAP") and the Employee Stock Ownership Plan (the "ESOP"). Both the RAP and the ESOP are intended to be qualified under Section 401 of the Code. The retirement program covers substantially all U.S. employees of ML & Co. and its participating affiliates who have reached age 21 and completed at least one year of service, including service prior to 1989. Under the program, Common Stock and cash are allocated quarterly to participants' accounts. Allocations of Common Stock are made under the ESOP, which was funded in 1989. The remainder of the allocations is made from cash contributions made to the RAP by ML & Co. Total annual allocations to a participant's account under the program are equal to a percentage of the participant's annual eligible compensation (such compensation not to exceed $222,220 for 1991, $228,860 for 1992, and thereafter as adjusted annually by the Internal Revenue Service for cost of living increases). The percentage is based upon the participant's years of service, age, and eligible compensation, and may not exceed 16 percent. Participants can elect the manner in which the cash contributions under the RAP are invested from among a number of investment alternatives, including funds for which MLAM is the manager or investment adviser, unit investment trusts sponsored by MLPF&S, and Common Stock. Participants are 100 percent vested in their account balances upon completion of 5 years of service, or upon attaining age 65, the normal retirement age. Distributions under the ESOP and the RAP are generally payable in a single sum.

For 1991 and 1992, the aggregate amount that could be allocated to a participant's account under the retirement program and the Savings Plan is the lower of $30,000 or 25 percent of the participant's compensation for that year, as determined under Internal Revenue Service regulations (subject to certain other limitations imposed by the Code).

For the fiscal year ended December 27, 1991, the indicated amounts were received in connection with the retirement program, in the form of Common Stock and/or cash, by the following executive officers who are named in the Cash Compensation table and by the following group: William A. Schreyer ($24,446); Daniel P. Tully ($24,446); Barry S. Friedberg ($22,501); John L. Steffens ($22,501); Roger M. Vasey ($16,667); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group ($230,010). These amounts include both allocations pursuant to the retirement program and cash payments made because of limitations imposed by the Code upon such allocations.

Pension Plan Annuity. In 1988, the defined benefit Pension Plan was terminated, and a group annuity contract to pay the Pension Plan benefits to the vested participants was purchased from Metropolitan Life Insurance Company with a portion of the terminated Pension Plan trust assets. This annuity is payable at normal retirement (generally age 65) or at an early retirement age in a reduced amount. ML & Co. participates in the actuarial experience and investment performance of these annuity assets under an agreement with Metropolitan Life Insurance Company.

Upon retirement, executive officers of ML & Co. will be eligible to receive an annuity. Those retiring at age 65 with at least 10 years of Pension Plan participation will receive the statutory maximum for annual annuity payments, which is $112,221 during 1992. This amount will be adjusted annually by the Internal Revenue Service for cost of living increases. The compounded annual growth rate of these cost of living increases has been 4½ percent since 1988, the year indexing began. In future years, after adjustments for cost of living increases, these annuities, if payable as straight life annuities and if permitted by the statutory maximum, will not exceed the following amounts for the following executive officers, who are named in the Cash Compensation table, and the following group: William A. Schreyer ($380,255); Daniel P. Tully ($316,168): Barry S. Friedberg ($398,448); John L. Steffens ($227,963); Roger M. Vasey ($293,942); and all executive officers of ML & Co. (including those named in the Cash Compensation table) as a group ($2,425,953); these annuity amounts reflect an offset for estimated social security benefits in accordance with the provisions of the terminated Pension Plan.

Annuity Agreements. ML & Co. entered into annuity agreements with Messrs. Schreyer and Tully, effective July 24, 1991 (the "Annuity Agreements"), to provide for supplemental annuity payments to them and their surviving spouses. The annuity is payable if the individual retires or dies while an executive officer of ML & Co. The annual amount of the annuity will be equal to 1.25 percent of the individual's highest consecutive 5-year average earnings (*i.e.*, total cash compensation) multiplied by years of total employment up to age 65, as reduced by the Pension Plan Annuity and the annuity value of the total of the individual's benefits allocable to ML & Co. contributions to all qualified retirement plans, namely, the Savings Plan, the ESOP, and the RAP. The payment will be made monthly in the form of a life annuity or, subject to reductions, a joint and survivor life annuity, or 10-year certain and life annuity. The survivor benefits, if applicable, are payable only to a spousal beneficiary.

As of December 27, 1991, Messrs. Schreyer and Tully had "Highest Consecutive 5-Year Average Earnings" of $2,033,400 and $1,743,440, respectively, and "Years of Total Employment" of approximately 43½ years and 36 years, respectively. The table below sets forth estimated amounts payable under the Annuity Agreements, prior to the required reductions described above, as a

straight life annuity payable upon retirement at age 60 or thereafter, assuming the specified "Highest Consecutive 5-Year Average Earnings" and "Years of Total Employment":

Highest Consecutive 5-Year Average Earnings	Years of Total Employment		
	35	40	45
$1,500,000	$ 656,250	$ 750,000	$ 843,750
1,600,000	700,000	800,000	900,000
1,700,000	743,750	850,000	956,250
1,800,000	787,500	900,000	1,012,500
1,900,000	831,250	950,000	1,068,750
2,000,000	875,000	1,000,000	1,125,000
2,100,000	918,750	1,050,000	1,181,250
2,200,000	962,500	1,100,000	1,237,500

Limited Partnership Offerings. ML & Co. has organized 6 investment limited partnership offerings to enable directors of ML & Co. and key officers and other employees of ML & Co. and its subsidiaries to pool their investment resources and receive the benefit of certain investment opportunities that come to the attention of ML & Co. or its subsidiaries without the necessity of each investor identifying and analyzing the investment merit of such opportunities. The 6 partnerships are Merrill Lynch KECALP Growth Investments Limited Partnership 1983, Merrill Lynch KECALP L.P. 1984, Merrill Lynch KECALP L.P. 1986, Merrill Lynch KECALP L.P. 1987, Merrill Lynch KECALP L.P. 1989, and Merrill Lynch KECALP L.P. 1991 (collectively, the "Partnerships"). Participation in the Partnerships is limited to directors of ML & Co. and key officers and other employees of ML & Co. and its subsidiaries who earned at least $75,000 with respect to the previous calendar year. The number of persons to whom such investment opportunities have been offered has ranged between approximately 4,500 and 8,300. Investors were permitted to invest from $5,000 up to a specified percentage of income. The management of the Partnerships is exclusively vested in the general partner, a wholly-owned subsidiary of ML & Co., which assumes certain operating expenses of the Partnerships including brokerage expenses not borne by ML & Co. or its affiliates.

During the fiscal year ended December 27, 1991, the following executive officers who are named in the Cash Compensation table and the following group received the indicated aggregate distributions as a result of their investment of the indicated amounts in the Partnerships: Daniel P. Tully ($270 on $560,000 invested); John L. Steffens ($810 on $600,000 invested); Roger M. Vasey ($1,350 on $50,000 invested); and all executive officers of ML & Co. (including those named in the Cash Compensation Table) as a group ($2,430 on $1,965,000 invested).

During the fiscal year ended December 27, 1991, one executive officer of ML & Co. participated as a limited partner in a real estate limited partnership; with respect to such period, he received distributions aggregating $3,180 as a result of participation in this partnership.

Other Plans. ML & Co. has an agreement with an individual who was an executive officer but who ceased employment with ML & Co. during 1991, pursuant to which he has agreed to provide consulting services to ML & Co. for a 3 year period for minimum annual fees of $150,000, $125,000, and $100,000 for the first, second, and third years, respectively, of the agreement. Pursuant to this agreement, ML & Co. also made cash payments of $383,125 for incentive compensation and 10,500 shares of Common Stock and $600,676 in payment of Performance Shares pursuant to ECAP. Also, 40,000 Restricted Shares, 12,500 Restricted Units, and options to purchase 60,000, 90,000 and

34,000 shares of Common Stock at $29.4375, $22.875, and $21.375 per share, respectively, granted pursuant to ECAP or the Long-Term Plan are payable or exercisable in accordance with the provisions of these plans concerning retirement. The exercise prices of the options are 100 percent of the market value of a share of Common Stock on the dates of grant.

Compensation of Directors

ML & Co. directors who are not full-time employees of ML & Co. or an affiliated corporation receive $40,000 per year base compensation and reasonable travel expenses incurred in connection with attending meetings. In addition, non-employee directors receive $15,000 per year for services as members, or $25,000 per year for service as Chairman, of the Audit, Finance, and Management Development and Compensation Committees, and $6,000 per year for service as Chairman of the Nominating Committee. In addition, non-employee directors who serve on an "ad hoc" global markets committee receive reimbursement for all travel and client entertainment expenses and a per diem payment of $1,000 while engaged in their duties. Each non-employee director who has served for 5 years or has reached age 65, and who thereafter ceases to serve for any reason other than removal for cause, is eligible to receive a pension benefit. Also, each non-employee director's beneficiary(ies) or estate is entitled to receive a death benefit in the event of such director's death during his term. Such benefits are generally based upon the base compensation for non-employee directors at the time of the director's cessation of service or death, as the case may be, and the director's age and length of service. Although the amount and method of payment of each such benefit cannot be determined until the time of entitlement, it will not, on an annualized basis, exceed the base compensation for non-employee directors at the time of the director's cessation of service or death, as the case may be. ML & Co. also provides health, contributory life, and business travel insurance benefits to non-employee directors.

Severance Agreements

ML & Co. has agreements with 38 present members of executive and senior management, including Messrs. Schreyer, Tully, Friedberg, Steffens, and Vasey. These agreements provide for payments and other benefits if there is a Change in Control (generally as defined under the caption "Long-Term Incentive Compensation Plan") of ML & Co. and the employee's employment is subsequently terminated by ML & Co. or its successor (other than for cause, disability, retirement, or death) or by the employee for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The term of each agreement is 3 years, which is automatically extended each year for an additional year until notice to the contrary is given to the employee. Under each agreement, the employee will receive a lump sum payment equal to 2.99 times the employee's average annual compensation for the 5 years immediately preceding the year of the termination of employment. The employee shall also receive (i) a lump sum payment equal to the after-tax value of life, disability, accident, and health insurance benefits for 24 months after termination of employment, (ii) a lump sum payment equal to the retirement contribution, and an amount sufficient to cover the income taxes payable thereon, that the employee would have been eligible to receive from ML & Co. under the terms of the ML & Co. retirement program, consisting of the RAP, the ESOP, and any applicable ML & Co. contributions to the Savings Plan, or any successor program or plan that may be in effect at the time of the Change in Control, determined as if the employee were fully vested thereunder and had continued (after the date of termination) to be employed for an additional 24 months at the

employee's highest annual rate of compensation during the 12 months immediately preceding the date of termination for purposes of determining the basic contributions and any applicable supplemental contributions; and (iii) any legal expenses and fees incurred as a result of his termination of employment. Any payments received under these agreements would be in addition to amounts received under the various plan provisions described under the caption "Compensation Pursuant to Plans."

Certain Transactions

Between the beginning of the 1991 fiscal year and February 29, 1992, certain directors and executive officers of ML & Co. and their associates were indebted to MLPF&S, as customers, as a result of debit balances in margin accounts. Transactions in such margin accounts were in the ordinary course of business, were substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, except that interest rates charged were the same as the lowest interest rates charged such other persons, and did not involve more than the normal risk of collectability or present other unfavorable features. In addition, certain directors, executive officers, or their associates were indebted to other subsidiaries of ML & Co. as a result of transactions regarding Merrill Lynch Equity Access® credit accounts (a personal revolving line of credit secured by the unencumbered equity in an individual's primary or secondary residence) and PrimeFirst℠ loans (an adjustable rate first mortgage loan). These transactions were in the ordinary course of business and substantially on the same terms as those prevailing for comparable transactions with the general public, except that the interest rates and account opening fees offered to all employees under the Merrill Lynch Equity Access® credit accounts are more favorable. Finally, certain executive officers of ML & Co. were indebted to a subsidiary of ML & Co., as customers, as a result of loans for the purchase of Book Value Shares pursuant to the Incentive Equity Purchase Plan, described above under the caption "Incentive Equity Purchase Plan." These transactions also were in the ordinary course of business, were on the same terms as those prevailing for comparable transactions, and did not involve more than the normal risk of collectability or present other unfavorable features.

From time to time since the beginning of the 1991 fiscal year, ML & Co., through certain of its subsidiaries, has engaged in transactions in the ordinary course of business with State Street Bank and Trust Company, the holder of more than 5 percent of the outstanding shares of Common Stock; all of such transactions were on substantially the same terms as those prevailing at the time for comparable transactions with others.

From time to time since the beginning of the 1991 fiscal year, ML & Co., through certain of its subsidiaries, in the ordinary course of business has performed investment banking, financial advisory, and other services for certain corporations with which its directors are affiliated.

A NYSE membership owned by John J. Phelan, Jr., a director of ML & Co., was leased by him to an employee of a NYSE specialist firm that was subsequently acquired by a subsidiary of ML & Co. The subsidiary is entitled to use the membership and is responsible for making lease payments. This lease commenced in May, 1991 at a rate of $66,000 per year; the range of rates during 1991 for new NYSE membership leases, as reported by the NYSE, was $48,000 to $84,000. The lease is renewable annually at the then prevailing lease rate.

On April 22, 1991, Edward L. Goldberg was elected an officer of ML & Co. and first became subject to the provisions of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act"). At that time, he held interests in an employee benefit plan in which officers of ML & Co. generally do not participate; they were acquired in 1986, 1987, and 1988, prior to his election as an officer. One of Mr. Goldberg's reports, when filed, did not disclose those interests, as required, and was later amended to include the pertinent information. The interests were not reportable under the rules in effect prior to May 1, 1991 and are exempt from short-swing profit liability under the Exchange Act. In addition, four of Mr. Goldberg's reports filed during 1991 did not reflect 18 shares held by his wife as custodian for their children, all of which shares were acquired prior to Mr. Goldberg being elected an officer of ML & Co.; these shares were reported in January, 1992.

A consolidated stockholder derivative action was commenced in October, 1991, in New York State Supreme Court by stockholders Charles Miller and Kenneth Steiner (Index No. 29885/91 Sup. Ct.). The plaintiffs in this consolidated action assert breach of fiduciary duties, in connection with a series of year-end securities transactions between ML & Co. and Guarantee Security Life Insurance Company ("GSLIC") in 1984-1988, against all present directors of ML & Co. who were directors at the time of these trades. Another stockholder, Charles Wilson, commenced a derivative action in March, 1992, in New York State Supreme Court (Index No. 6113/92 Sup. Ct.). This suit alleges that two former employees and the President of ML & Co. breached various duties in connection with the GSLIC transactions and the supervision of the high yield bond department. The damages sought in both actions are unspecified.

OTHER MATTERS

The Board of Directors knows of no business that will be presented for consideration at the Annual Meeting other than those items stated in the Notice. Should any other matters properly come before the Annual Meeting or any adjournment thereof, shares represented by the enclosed form of proxy, if signed and returned, will be voted in accordance with the judgment of the person or persons voting the proxies.

ML & Co. will furnish any stockholder a copy of its 1991 Form 10-K Annual Report (including financial statements and financial statement schedules but excluding other exhibits), without charge, upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 22nd Floor, 2 Broadway, New York, New York 10080-6022.

STOCKHOLDER PROPOSALS FOR THE 1993 ANNUAL MEETING

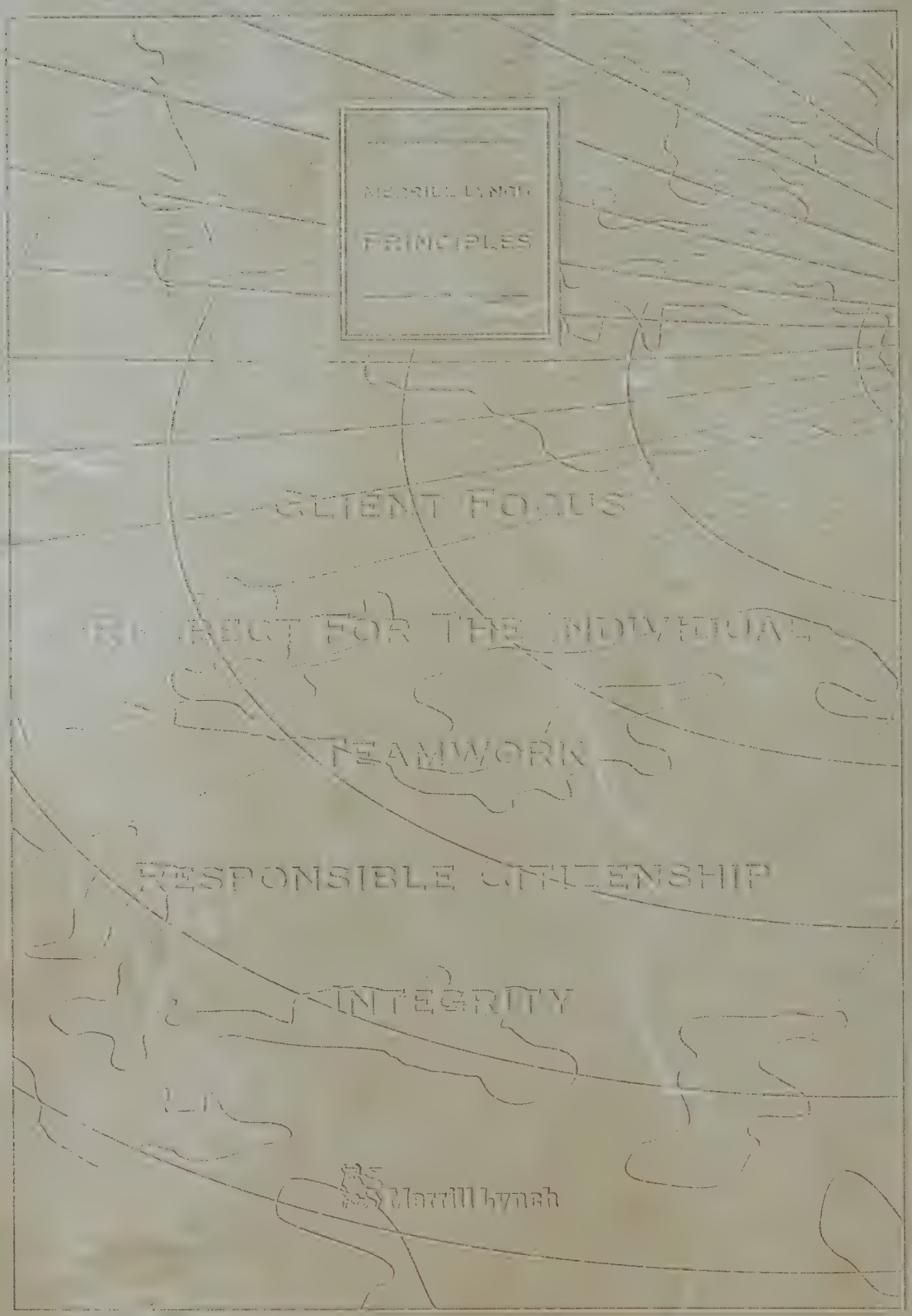
In accordance with the rules of the Securities and Exchange Commission, stockholder proposals intended to be presented at the 1993 Annual Meeting of Stockholders of ML & Co. must be received by ML & Co., at its principal executive office, for inclusion in the proxy statement and form of proxy relating to that meeting not later than November 19, 1992.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary



Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, NY 10281


MERRILL LYNCH
PRINCIPLES
CLIENT FOCUS
RESPECT FOR THE INDIVIDUAL
TEAMWORK
RESPONSIBLE CITIZENSHIP
INTEGRITY
Merrill Lynch

Financial Highlights

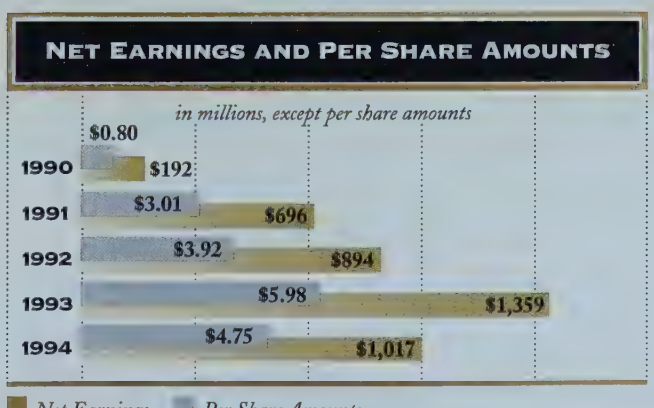
(Dollars in Thousands, Except Per Share Amounts)	1990 (52 Weeks)	1991 (52 Weeks)	1992 (52 Weeks)	1993 (53 Weeks)	1994 (52 Weeks)
					Year Ended Last Friday in December
Operating Results					
Total Revenues	$ 11,147,229	$ 12,352,812	$ 13,412,668	$ 16,588,177	**$ 18,233,091**
Net Revenues	$ 5,783,329	$ 7,246,468	$ 8,577,401	$ 10,558,230	**$ 9,624,521**
Net Earnings	$ 191,856	$ 696,117	$ 893,825	$ 1,358,939	**$ 1,016,761**
Pretax Margin *(a)*	4.9%	14.0%	18.9%	23.0%	**18.0%**
Profit Margin *(b)*	3.3%	9.6%	11.1%	13.2%	**10.6%**
Return on Average Common Stockholders' Equity	5.8%	20.8%	22.0%	27.3%	**18.6%**
Financial Position					
Total Assets	$ 68,129,527	$ 86,259,343	$ 107,024,173	$152,910,362	**$ 163,749,327**
Total Stockholders' Equity	$ 3,225,430	$ 3,818,088	$ 4,569,104	$ 5,485,913	**$ 5,817,545**
Per Common Share					
Primary Earnings	$.80	$ 3.01	$ 3.92	$ 5.98	**$ 4.75**
Fully Diluted Earnings	$.80	$ 2.95	$ 3.91	$ 5.95	**$ 4.74**
Dividends Paid	$.50	$.50	$.575	$.70	**$.89**
Book Value	$ 14.99	$ 17.88	$ 21.37	$ 26.17	**$ 28.87**
Other Statistics *(c)*					
Assets Under Management	$110,000,000	$ 124,000,000	$ 139,000,000	$161,000,000	**$ 164,000,000**
Assets in Domestic Private Client Accounts	$361,000,000	$ 422,000,000	$ 463,000,000	$527,000,000	**$ 537,000,000**
Assets in Worldwide Private Client Accounts	$377,000,000	$ 440,000,000	$ 487,000,000	$557,000,000	**$ 568,000,000**
Common Shares Outstanding *(d)*	199,669,270	205,443,636	207,202,688	203,989,691	**181,479,127**

(a) Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles to Net Revenues.

(b) Earnings Before Cumulative Effect of Changes in Accounting Principles to Net Revenues.

(c) Client accounts have been redefined to include certain institutional private portfolio accounts.

(d) Does not include 16,071,968, 13,636,820, 11,201,672, 8,932,332, and 6,427,091 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1990, 1991, 1992, 1993, and 1994, respectively, which are not considered outstanding for accounting purposes.



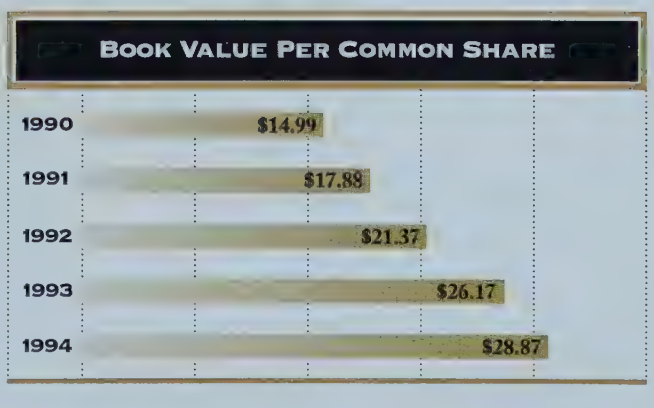


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LYNCH IS SINGULARLY POSITIONED AND STRATEGICALLY COMMITTED TO
ADERSHIP AS THE PREEMINENT FINANCIAL MANAGEMENT AND ADVISORY
Y.

To Our Shareholders and Clients:

1994 was the second most profitable year in Merrill Lynch history. We achieved net earnings of $1.02 billion and a return on common equity of 18.6% — in line with our goal of averaging at least 15% return on equity across market cycles.

These earnings were achieved in an extremely difficult market environment. The Federal Reserve Board's preemptive strike against inflation, which resulted in an increase in the federal funds rate of 300 basis points through successive tightenings beginning in February 1994, led to the worst year on record for the bond market. This in turn contributed to severe profit deterioration throughout the securities industry. By achieving a second consecutive year of billion-dollar profits, we continued to differentiate our company not just in terms of earnings power, but also in global market leadership and service to our clients. And we demonstrated that the strategies we put into place over the past decade have positioned us to serve our clients and reward our shareholders across market cycles.

Several years ago we established the goal of being the world's preeminent financial management and advisory company. In practice, this means building the kind of long-term relationships with clients that extend beyond individual transactions and span market cycles and, indeed, generations.

Our ability to focus on long-term relationships with our clients is enhanced by our operating strategies. These strategies include: focusing on core businesses, achieving one of the broadest and most diverse revenue bases in our industry, steadily expanding our global presence, carefully managing costs and risks, and further strengthening our capital base and liquidity position. We continue to invest in leading-edge technology, with our

professionals in Operations, Systems and Telecommunications working with our business groups to provide exceptional client service. And we are vigilant in safeguarding our "Tradition of Trust" through strong internal law and compliance systems.

OUR SUCCESS IS MEASURED BY THE DEGREE OF TRUST OUR CLIENTS PLACE IN MERRILL LYNCH. WE KNOW THAT THIS TRUST IS BASED UPON THE PRINCIPLES THAT GUIDE OUR COMPANY: CLIENT FOCUS, RESPECT FOR THE INDIVIDUAL, TEAMWORK, RESPONSIBLE CITIZENSHIP AND INTEGRITY.

The success of these efforts is evident in a number of different measures. Private Client assets, for example, reached $568 billion, including nearly $164 billion in mutual funds and private portfolios managed by Merrill Lynch Asset Management. The central focus of our dealings with individual clients is financial planning, and we enlarged upon our principle of Client Focus with the introduction of a detailed *Client Commitment*, which is described on page 14.

In our corporate and institutional businesses, we were the top underwriter of U.S. debt and equity for a seventh consecutive year, and of global debt and equity for a sixth consecutive year, maintaining our leading global market share of nearly 13%. For the first time, we achieved the top position in Eurobond and global bond underwriting. Our company rose from fifth to third place as advisor in announced global mergers and acquisitions transactions, and was the leader in completed merger and acquisition transactions in the United States. We remained the leader in listed block equity and American depositary receipt (ADR) trading.

Our traditional commitment to research has always been an important part of our relationship with institutional and individual clients alike. The standard-setting *Institutional Investor* poll ranked Merrill Lynch number one in 1994 in overall research strength in the combined fixed income and equity category.

As noted above, these accomplishments were achieved for our clients in a market environment that was difficult and indeed treacherous for many. One of the most publicized casualties of 1994 was the fixed-income portfolio managed by the Treasurer of Orange County, California; the county declared bankruptcy in December following the unprecedented



Compound Annual Growth Rate: 1976–1994
Net Revenues: +14%
Shareholders' Equity: +13%
Source: Merrill Lynch Financial Management Reporting

turbulence in the bond market. Subsequently, allegations were made that Merrill Lynch was responsible for the county treasurer's investment policy. We believe the facts, when fully aired and understood, will make it clear that our company acted properly and professionally in our dealings with the Orange County Treasurer, with whom we had a 20-year relationship.

Looking forward into 1995, the financial markets remained unsettled as the year began, awaiting clearer signs on the direction of the economy, interest rates and inflation. The Federal Reserve Board appeared to be at or near the end of its tightening cycle, with bonds unlikely to repeat their 1994 free-fall. Our economists believe that the Fed will achieve its goal of slowing 1994's pace of economic growth while holding inflation to modest increases. This should prove increasingly beneficial to the U.S. financial markets as the year progresses.

Today any investment outlook is incomplete without a global perspective. Enthusiasm for investing in emerging markets has clearly waned dramatically in recent months; this trend was only accelerated by the Mexican currency crisis. Yet the prospects for attractive returns in many of these markets remain highly promising for those investors willing to build their portfolios over time through a cost-averaging approach, and who can tolerate near-term volatility as an inevitable part of the risk/reward equation.

There is no question that 1994 often seemed like a year made for pessimists. Yet experience shows that while pessimists may be right at any one moment, they are always wrong over the long term. While the markets no doubt will continue to move in cycles, a number of long-term trends bode well for our industry: the growth of free markets around the world, the increasing flow of capital across borders and the growing appreciation of the need for increased saving and investment.

MERRILL LYNCH & CO., INC.

EXECUTIVE MANAGEMENT COMMITTEE

Herbert M. Allison, Jr.
Paul W. Critchlow
Barry S. Friedberg
Edward L. Goldberg
Stephen L. Hammerman
John G. Heimann
Jerome P. Kenney
Daniel T. Napoli
Thomas H. Patrick
Winthrop H. Smith, Jr.
John L. Steffens
Roger M. Vasey
Patrick J. Walsh
Joseph T. Willett
Arthur Zeikel



David H. Komansky *Daniel P. Tully*

Strong Management for the Future

In January 1995, two key changes were made in top management. David H. Komansky, who most recently had served with distinction as Executive Vice President, Debt and Equity Markets Group, was appointed President and Chief Operating Officer and elected to the Board of Directors. Dave is a leader of extraordinary talent and experience — an executive who embodies the culture and traditions of Merrill Lynch and has the global vision to guide our company in a rapidly changing world.

In addition, Herbert M. Allison, Jr., who had been EVP, Investment Banking, was appointed head of a combined Corporate and Institutional Business Group. A proven leader with keen strategic vision and exceptional executive skills, Herb will carry on the work of integrating Investment Banking and Debt and Equity Markets into a single seamless, client-focused unit.

In their new positions, Dave and Herb continue to serve as members of the Office of Chief Executive, along with Messrs. Hammerman, Steffens and Tully. Together with the other members of the executive management team, they will provide the strong leadership and vision required to compete and succeed in the 1990s and beyond.

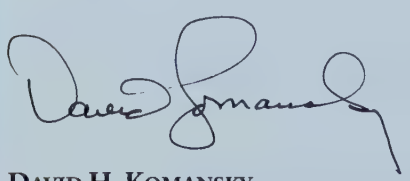
We are even more optimistic about the outlook for Merrill Lynch. The chart on the opposite page shows that over nearly 20 years, through all kinds of markets, the growth in our net revenues has averaged a strong 14% a year. Growth in net earnings has averaged 13%, as has growth in shareholders' equity.

Moreover, challenging years like the past one serve to underscore our clients' need for trusted advice based on intelligence, a global perspective and a long-term view. We are confident that our people, our strategies and our resources give us a unique ability to make a difference for our clients. We are equally confident that the Merrill Lynch Principles, which have guided us successfully over the years, will continue to provide a solid foundation for our future success.

Sincerely,



Daniel P. Tully
Chairman and Chief Executive Officer



David H. Komansky
President and Chief Operating Officer

March 2, 1995

GLOBAL PERSPECTIVE

In 1994, a previously stagnant world economy doubled its growth rate to 3%. Most major industrialized nations posted large gains in output, with many developing nations in Asia and Latin America not only keeping pace but in some cases achieving growth rates significantly above average. While there have been dislocations in China and Mexico, emerging markets, which account for 80% of the world's population, are expected to continue recording high growth rates.

This new momentum was facilitated by the gradual reduction of trade barriers, as reflected in the NAFTA and GATT agreements. World trade grew at better than 7% in 1994, its fastest rate since 1988, creating a powerful economic engine.

A strong flow of capital into emerging markets also fueled world economic growth. In a departure from past patterns, a large proportion of this capital took the form of equity investment rather than bank loans. A confluence of forces was at work. On the demand side, many more investors looked beyond the short-term risks of investing in emerging markets and focused on their tremendous long-term promise. On the supply side, the governments of developing countries increasingly recognized that foreign capital is indispensable to building infrastructure and spurring economic growth.

Many business sectors in advanced economies stand to benefit from expanded markets. However, nascent economies, once their infrastructures are fully in place, will produce increasing quantities of exports. As a result, farsighted corporations and institutions in advanced economies also recognize the need to invest in equipment and training to enhance productivity, the better to compete in the global marketplace. They view an integrated world economy as an opportunity, not a threat.

Developing countries, with their abundant supplies of raw materials and labor, and industrialized countries, with their management expertise and technological know-how, have together embarked on a period of remarkable growth, each boosting the other to new heights. When the infrastructures of emerging markets become more fully developed, it will matter little where companies are based — Boston or Beijing, Seville or São Paulo — so long as they are able to recognize and take advantage of the opportunities created by change. Although surging economic growth brings with it the potential for inflation and rising interest rates — factors for investors in the global economy to consider — the stage is set for dynamic growth in the world economy in 1995 and beyond.

Individual Clients

- Total assets held in Merrill Lynch client accounts rose to more than $568 billion.

- Assets under management by Merrill Lynch Asset Management increased to nearly $164 billion. In addition, investors entrusted new assets to the MLAM funds at a rate well in excess of our broker/dealer competitors.

- In 1994, Individual Retirement Account assets held at Merrill Lynch reached more than $71 billion.

- We introduced a new Priority Phone℠ service offering after-hours order placement and 24-hour access to stock quotes.

- Our total mortgage originations increased 43% to $2.4 billion, even as the industry declined 24%. Secured personal credit lines outstanding — including Equity Access® home-equity credit lines and Omega℠ securities-based credit lines — rose 27%.



Client Commitment

We published the Merrill Lynch Client Commitment. Its six pledges — Client Dedication, Personal Service, A Financial Plan, Suitable Recommendations, Full Disclosure, The Integrity of Merrill Lynch — complement the Merrill Lynch Principles.

Blockbuster

Merrill Lynch advised Blockbuster Entertainment Corporation in its $1.25 billion purchase of Viacom Inc. stock, which facilitated Viacom's acquisition of Paramount Communications Inc. We then advised Blockbuster in its $8.4 billion merger with Viacom Inc.

- Merrill Lynch Retirement Plus℠ variable annuity assets exceeded $3 billion.

- More than 13,000 of our clients invested $800 million in Merrill Lynch Mutual Fund Advisor (MFA℠), a new low-minimum, discretionary money-management program.

- Client purchases of Certificates of Deposit totaled $7.5 billion — 85% of the combined client purchases of CDs for the prior three years.

- We doubled our corporate stock-option financing business, adding programs for several *Fortune* 500 companies.

- International Private Banking client assets increased, as international bank deposits rose 28%, assets under professional management 25%, Swiss bank assets 19%, and international trust assets 14%.

- 5,600 Financial Consultants at various stages in their careers attended training programs, an area in which we remained the leader.

Small and Mid-Sized Businesses and Employee Benefit Clients

- More than 650,000 business accounts have entrusted us with $123 billion in cash management and retirement plan assets, up 16% from the prior year.

- Business loan commitments exceeded $1 billion for the first time.

- Business Advisory Services, offering specialized financing and investment banking services for small and mid-sized businesses, had record growth of 235%.



- Assets in 401(k) plans serviced by Merrill Lynch grew 46% to $25.7 billion, with more than $9 billion invested in MLAM-managed funds.

- Assets in Basic℠ (Keogh Plus) accounts rose to $5.6 billion, and assets in Simplified Employee Pension accounts to $3.9 billion.

- We serviced 1.3 million participants in our employer-sponsored savings plans and handled more than 7.9 million client calls.

1 • 9 • 9 • 4

Singularly Positioned There is only one Merrill Lynch. Our scope, financial strength, balance, depth of talent and integrity have set us apart.

Strategically Committed As we constantly remind our clients, a strategic perspective – taking into account opportunity and risk – is critical



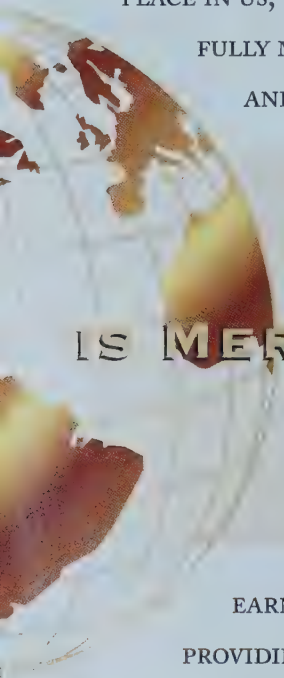
The Difference

to current and future progress and to the lasting value of the company. *Global Leadership* Our global scope and intelligence allow us to respond to opportunities and changes in all markets and in all regions. We serve the needs of our clients across all geographic borders.

Achievements

Financial Management

We have built a great company. Our ability to manage ourselves enhances our ability to serve our clients. To maintain the trust our clients place in us, we will continue to carefully manage our clients' assets and our own. *Advisory* Part of



is Merrill Lynch

earning our clients' trust is providing them with sound strategic advice, in the context of long-term relationships. In our quest to achieve preeminence, we are committed to and guided by the Merrill Lynch Principles. They make the difference.

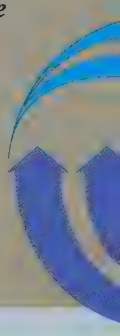
Corporate and Institutional Clients

- Merrill Lynch ranked #1 in U.S. Debt and Equity underwriting for the seventh consecutive year, and #1 in Global Debt and Equity underwriting for the sixth consecutive year.

- We remained the #1 underwriter of Debt, including Worldwide, U.S. Domestic, Investment Grade, High Yield and overall Municipal Debt. We also were the #1 underwriter of Global Bonds, Eurobonds and U.S. Asset Backed Securities.

Indosat

Merrill Lynch served as global coordinator for the largest international initial public offering by an Asian company — the Republic of Indonesia's $1.2 billion privatization of P.T. Indonesian Satellite Corporation (Indosat). The transaction received a number of awards in the press, including Best Privatization Equity Issue by* Euroweek*, which called it "a model exercise in careful planning and powerful placement."



- Merrill Lynch ranked #1 in Worldwide Equity and Equity-linked offerings, bringing to market $15.6 billion (including closed-end funds).

- In Europe and the Middle East, we lead managed debt issues in 11 currencies. In the Eurobond market, we were the top foreign underwriter of Swiss francs, Swedish krona and Japanese yen, as well as lead manager of an inaugural £200 million ($310 million) Eurobond for the Republic of Austria.

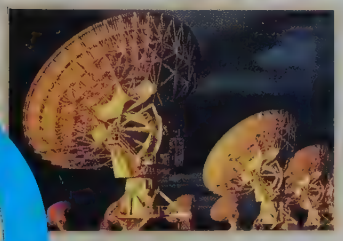
- In rankings for announced global mergers and acquisitions, Merrill Lynch moved up from #5 in 1993 to #3 in 1994. Also, we were the leading advisor in U.S. transactions based on the number of deals completed.

- Merrill Lynch was once again the leader in listed block and ADR trading, as well as a market leader in NASDAQ trading.

- Merrill Lynch ranked #1 in overall research strength in *Institutional Investor's* combined Fixed Income and Equity poll.

- Our unsurpassed fixed income and equity sales force — currently comprising 670 professionals — served 6,100 investor clients in 74 countries.

- *International Financing Review* named Merrill Lynch Bond House of the Year and U.S. Debt House of the Year, as well as FRN House of the Year and Emerging Markets Bond House of the Year.



Republic of Italy

The Republic of Italy chose Merrill Lynch as global coordinator for its multicurrency-denominated $4 billion global bond issue, a transaction that received numerous top awards in the financial press, including Global Bond of the Year by the* International Financing Review, *where it was described as "exciting, innovative and ambitious."

- The Government Trading Department established record levels for institutional transaction volume and market share, with volume expanding by more than 15% over 1993.

- PRIDES℠ (Preferred Redeemable Increased Dividend Equity Securities℠), introduced in 1993, became a significant product, with issues totaling $1.89 billion.

- Merrill Lynch remained a leader in debt and equity derivatives and swaps. Merrill Lynch Derivative Products, Inc. concluded its third full year of operations with 259 counterparties, a notional principal of $90.7 billion and 2,328 transactions.

- *Euromoney* presented Merrill Lynch with eight awards for excellence, including Best Underwriter of Emerging Market Equity and Best Underwriter of Emerging Market Debt.

- In December, Merrill Lynch announced plans to establish an International Capital Markets Bank in the International Financial Services Center in Dublin, Ireland, to complement Merrill Lynch's capital market activities in Europe and Asia Pacific.

THE AMERICAS

From February 1994 through early 1995, the Federal Reserve Board, concerned that an invigorated U.S. economy might engender high levels of inflation, raised interest rates by 300 basis points — the second most rapid tightening cycle ever. At the same time, growth was strong and steady in sectors such as business equipment, where expansion not only established a foundation for further growth but added to the ability of the economy to produce.

Canada benefited from the increase in U.S. economic activity. As the U.S.'s largest single trading partner, the country experienced consistent demand for resource-based products and high levels of output in transportation-related industries. However, if U.S. growth does slow, Canada might also experience a near-term deceleration.

At year-end, Latin America was buffeted by the devaluation of the Mexican peso, but the region's long-term prospects remain promising. For the most part, individual economies are healthy; governments are delivering on promises of economic reform; and the economic integration of the region is proceeding apace — with NAFTA and, more recently, the extension of Mercosur, a trading agreement between Brazil, Argentina, Paraguay and Uruguay. Nevertheless, high world interest rates or investor uncertainty could cause capital flows to slow, which in turn would delay spending on infrastructure and dampen growth.

THE DRAMATIC GROWTH IN ECONOMIES THROUGHOUT THE AMERICAS IS INCREASING OUR CLIENTS' NEED FOR EXPERT FINANCIAL GUIDANCE AND ASSISTANCE IN ASSESSING GLOBAL OPPORTUNITIES. MERRILL LYNCH IS IDEALLY SUITED TO HELP THEM.



We take a broad approach that gives clients the full benefit of our unsurpassed resources — experience, global presence, market intelligence and an abiding commitment to putting the client first. In a time when the demand — and the rewards — for strategic thinking have never been greater, Merrill Lynch can truly make a difference.

Private Client

In 1994, we published the Merrill Lynch Client Commitment to underscore our resolve to be the world's premier planning-based financial management company — as we already are for more than four million individuals and small and mid-sized businesses who have entrusted us with nearly $570 billion of their assets. The Client Commitment comprises six pledges: Client Dedication, Personal Service, A Financial Plan, Suitable Recommendations, Full Disclosure, and The Integrity of Merrill Lynch.



Source: Merrill Lynch Market Planning

Individual Services

Last year, demonstrating our *client dedication*, we realigned our resources through business units specifically dedicated to working closely with our Financial Consultants (FCs) in serving the differing needs of clients during their financial life cycles:

- Through our next generation group, we focus on the needs of younger investors. We provide them with solutions for building assets and managing credit to meet a lifetime of financial goals — including buying a home and educating their children.

The Merrill Lynch Client Commitment

Client Dedication
Our clients' interests come first. By serving them well, we will also succeed.

Personal Service
Our clients are entitled to the personal advice and counsel of professional Financial Consultants whose philosophy and style of doing business are compatible with their own.

A Financial Plan
Our clients have the benefit of a personal financial plan to identify their long-term goals, and a strategy for implementing their plan.

Suitable Recommendations
Our financial recommendations are consistent with our clients' long-term goals, financial circumstances and risk tolerance.

Full Disclosure
We inform our clients of the costs and benefits of doing business with Merrill Lynch.

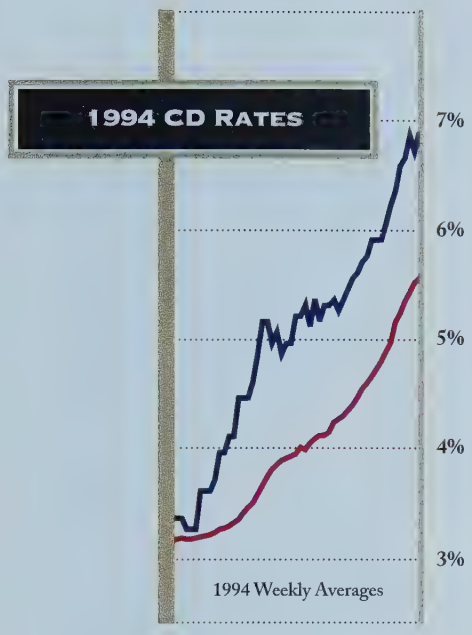
The Integrity of Merrill Lynch
Our principles, financial strength, service quality and market leadership provide comfort and security to our clients, through good times and bad.

- Our priority client group concentrates on the needs of established investors. We help them build and manage wealth to finance retirements that could last as long as their careers and plan for the transfer of assets to their heirs.
- Our private advisory group is dedicated to serving clients with very substantial investment portfolios and specialized financial and estate planning needs. We offer them sophisticated asset and liability management capabilities, including financing, discretionary investment advisory and philanthropic financial services.

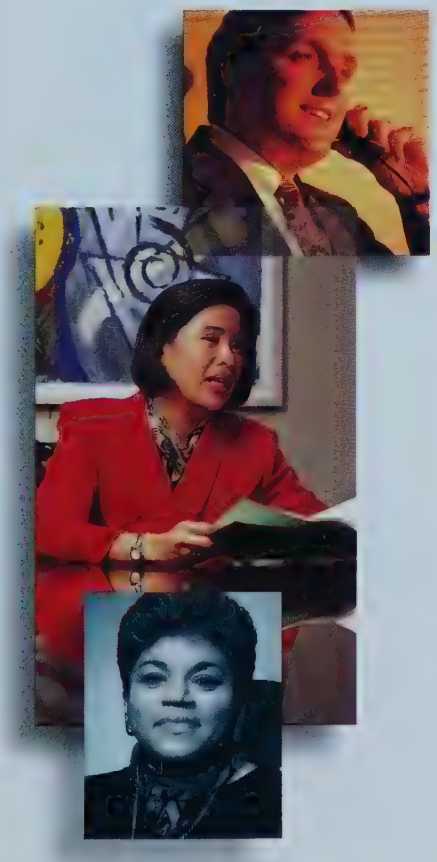
Our commitment to *personal service* begins with our Financial Consultants, who are given the best ongoing training in our industry. Our clients also have access to specialists in such areas as mortgages, personal credit, insurance, estate planning, trusts, and small business and employee benefit services. To ensure a seamless service delivery, we are increasing the number of FCs who work as teams, and we continue our drive to bring full service to smaller communities by opening Special Market Offices.

FCs help clients formulate the right financial strategy through a comprehensive *financial plan*. We enhanced our Financial Foundation® planning service. To date, some 200,000 clients have used this service. We also introduced a companion product — the Business Financial Planner℠ — to help small and mid-sized businesses with their financial goals.

Following completion of our first Estate Planning Survey, we dedicated more resources to estate planning. The Merrill Lynch Trust Companies, which provide trust services in 37 states, opened eight full-service regional trust offices. The Merrill Lynch Insurance Group also plays a critical role in helping meet client needs through a network of estate-planning and business-insurance specialists.



Average Rates for One-Year CD
Merrill Lynch
BRM National Average
Source: Merrill Lynch and Bank Rate Monitor



A critical component of our planning-based approach is helping clients manage liabilities as well as assets. Merrill Lynch Credit Corporation supplies clients with secured mortgage, personal credit and investment financing instruments.

As part of our commitment to give clients *suitable recommendations*, all FCs receive training throughout their careers so that they can accurately match products with clients' needs. We have the widest and most innovative range of products, and many are top performers. Our goal is planning-based performance over the long term to help clients reach their financial objectives.

The one-year Certificates of Deposit insured by the Federal Deposit Insurance Corporation available through our FCs generally yielded 100 basis points above the Bank Rate Monitor national average for much of 1994 — reflecting our policy of only offering CDs that yield more than comparable odd-lot U.S.Treasuries. As another example of the alternatives we provide clients, Merrill Lynch Asset Management (MLAM) offers mutual funds covering the full spectrum of investment objectives in the global capital markets, along with private portfolio counseling.

Our commitment to *full disclosure* means not only informing clients about costs but providing them with pricing choices. One such choice is Asset Power® — a pricing option that allows clients to pay a quarterly fee on the value of their assets in lieu of individual transaction charges. Our newly launched Select Pricing℠ System gives investors a number of pricing alternatives for MLAM funds.

Last, but not least, is our dedication to *the integrity of Merrill Lynch*. Because of our principles, financial strength, service quality and market leadership, our clients can rely on us as a lifelong planning partner.



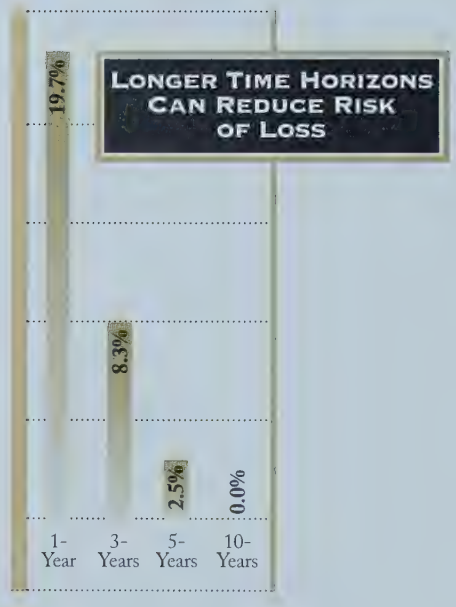
Small and Mid-Sized Business Services

In 1994, we introduced a Business Financial Planner service as well as a computer-based account reporting and electronic funds transfer system called WCMA® Advantage℠, adding substantially to our broad array of planning-based financial services for small and mid-sized businesses. WCMA assets grew by 10% to $37.1 billion. We also created a Middle Markets group, dedicating 175 FCs in 52 offices to deliver both transaction-based and business-related services to mid-sized financial institutions and corporations.

Retirement and Group Employee Benefit Services

We expanded services to small and mid-sized companies by launching a turnkey 401(k) employee savings plan called Daily(k)℠, utilizing MLAM and Merrill Lynch Trust services. Altogether, more than 1,300 new small and mid-sized 401(k) plans were opened. Overall assets increased by 70%.

Our share of the "jumbo" market for 401(k) and other employee benefit plans also grew dramatically, with 75 corporations, including The Kroger Company and Pennzoil Company, selecting Merrill Lynch to provide plan services. We also significantly expanded and refined existing plan services for Chrysler Corporation and PepsiCo.

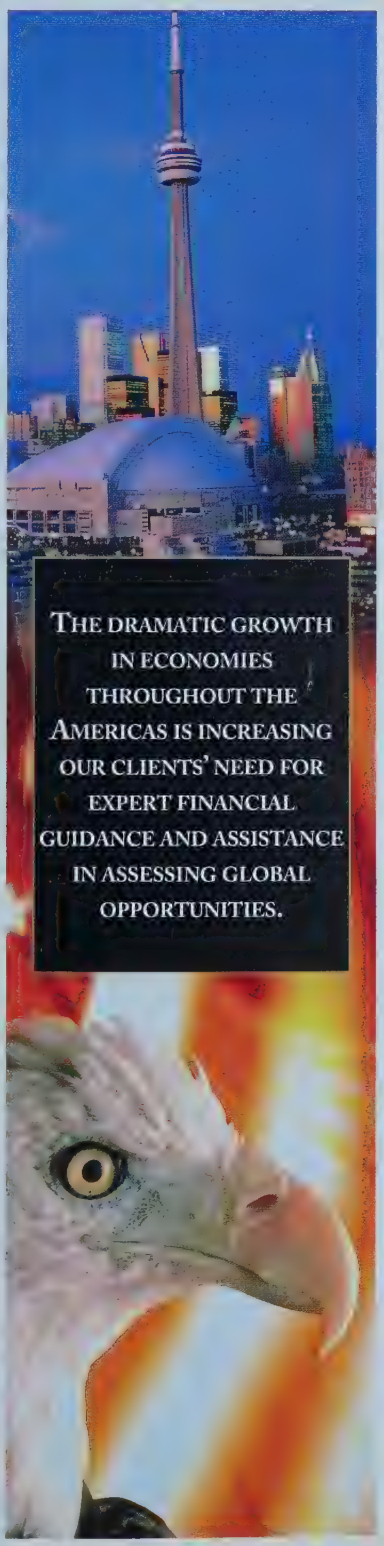


Percentage of S&P 500 returns that were negative in each 1-, 3-, 5- and 10-year holding period from 1970 to 1994.
Past performace is not necessarily indicative of future results.
Source: Merrill Lynch Quantitative Analysis

Institutional and Corporate Clients

Delivering service of the highest quality to our institutional and corporate clients requires excellence in strategic advisory services, underwriting, sales, trading and research. With leadership in each of these areas, Merrill Lynch serves thousands of institutions and corporations of all sizes.

One measure of our success is our growing number of long-term client relationships. An outstanding example is Blockbuster Entertainment Corporation. We have underwritten numerous debt and equity offerings



for this client, as well as provided strategic advice for domestic and international transactions. In 1993, we assisted Blockbuster with its diversification plans, which led last year to its $1.25 billion purchase of Viacom Inc. stock. The purchase facilitated Viacom's acquisition of Paramount Communications Inc. We then represented the client in its $8.4 billion merger with Viacom Inc.

Another example is HealthTrust, Inc.—The Hospital Company, which we took public in 1991 and assisted in subsequent equity and debt offerings, raising a total of $1.8 billion. In 1994, we advised HealthTrust in its $1 billion acquisition of EPIC Holdings, Inc. and served as advisor in its pending $5.3 billion merger with Columbia/HCA Healthcare Corporation, to create one of the largest for-profit health care providers in the world.

We had a record year in Mergers and Acquisitions, advising on 28 transactions with values of $1 billion or greater. For example, we advised R. H. Macy & Co., Inc. in its $4.1 billion merger with Federated Department Stores, Inc.; BB&T Financial Corporation in its $2.2 billion merger with Southern National Corporation; Transco Energy Company on its $3 billion merger with The Williams Companies, Inc.; and Monsanto Company on its $1.075 billion acquisition of the Kelco Division of Merck & Co. Inc.

We responded to the difficult market environment by providing innovative solutions to our clients' needs. We were co-lead manager of the Federal National Mortgage Association's (Fannie Mae) $1.5 billion global bond offering, the first ever to be issued by a government agency, pioneering an important new debt sector. Innovation was also key in the success of our Asset Backed Securities business. World Omni Financial Corp.'s $430 million issue utilized a "titling trust," resulting in significant savings for our client. The transaction was the first sale of retail auto lease receivables in a public securitization.



Excluding Closed-End Funds
Full Credit to Book Manager
Source: Securities Data Co.
1/1/94 through 12/31/94

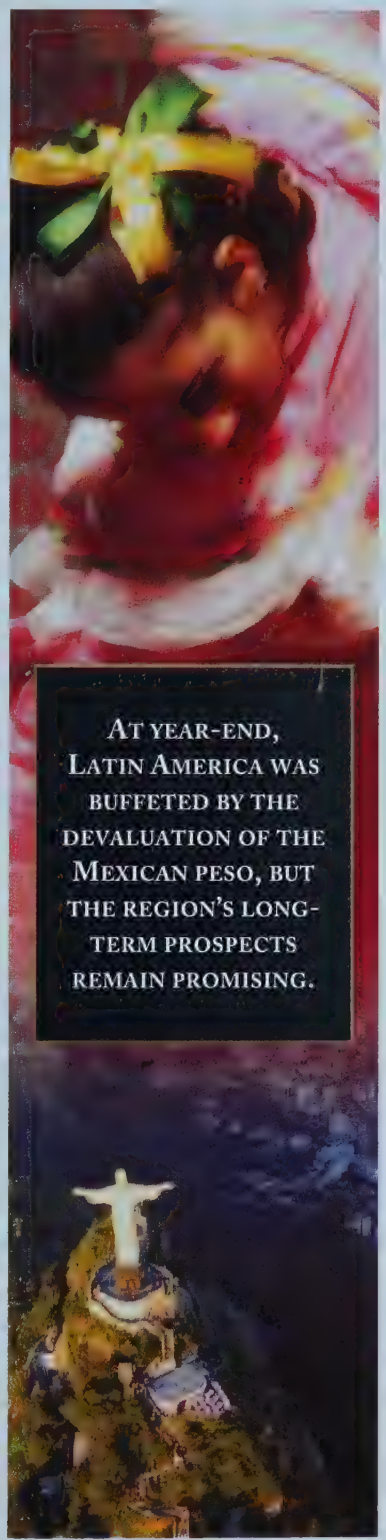


Merrill Lynch ranked #1 in the underwriting of Real Estate Investment Trusts (REITs), lead managing offerings valued at $3.9 billion. Among our noteworthy REITs were a $351 million issue for Crescent Real Estate Equities, Inc. and two issues for Equity Residential Properties Trust that raised a total of $454 million.

Our distribution and capital commitment were the driving force behind the success of UAL Corporation's $1.15 billion issue of bonds and preferred stock. The preferred stock offering was the largest ever of its kind for an airline. In addition to serving *Fortune* 500 companies, we take pride in being a premier investment bank to smaller, fast-growing companies, such as Detroit Diesel Corporation and Flores & Rucks, Inc., a Louisiana-based oil and gas company.

We continued to meet the growing needs of municipalities and government agencies, acting as lead manager for The City of New York's $703 million tax-exempt, fixed-rate bonds — the first of a three-part, $1.3 billion transaction. We were the #1 underwriter in municipal markets, lead managing $18 billion.

Merrill Lynch played a leading role throughout Latin America. In the largest Latin American offering of 1994, we brought to market a $546 million PRIDES℠ offering for Nacional Financiera, S.N.C., convertible into Teléfonos de México S.A. de C.V. (Telmex) stock. This completed the privatization of Mexico's communications network. We were also joint global coordinator and lead manager for a $537 million stock offering for Argentina's Transportadora de Gas del Sur S.A (TGS). For the Republic of Colombia, we lead managed a landmark $250 million investment grade Yankee bond issue. In Brazil, we led a $300 million Rule 144A issue for Companhia Energética de São Paulo (CESP).



For our service to Canadian clients, *Euromoney* named us Canada's Best Foreign Bank. We were joint bookrunning manager with Société Générale in a $1 billion Eurobond offering for the Province de Québec, the third issue for this client in 1994. Among our Canadian corporate clients were Rogers Cablesystems Limited, for which we managed an innovative Cdn$300 million ($226.8 million) high-yield debt offering; and The Horsham Corporation, which we advised in its acquisition of a 48% interest in Trizec Corporation Ltd.

International Private B

During 1994, we continued to invest in the ongoing economic expansion in Latin America. We added expertise and enlarged offices to help high-net-worth clients there access world markets, take advantage of our discretionary asset-management services and avail themselves of our International Private Banking Group's superior capabilities.

Global Institutional

Along with our top-ranked trading and research, our expert fixed-income and equity sales force is dedicated to serving the needs of our 6,100 institutional investor clients, 40% of whom are based in 73 countries outside the U.S. With a strong presence in financial centers throughout the world, we are able to offer the broadest possible range of investment opportunities. Comprehensive global account coverage is supplied through strategically coordinated teams of equity, fixed income and derivatives specialists.

With U.S. investors showing increased interest in international securities, we launched the Global Investor Conference Series, holding forums focused on major geographic regions as well as specific countries, such as Finland, South Africa, China and India. Speakers included a range of senior government and industry representatives.

EUROPE AND THE MIDDLE EAST

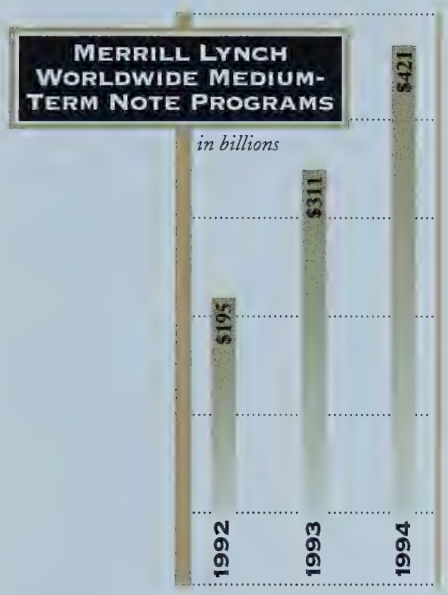
MORIBUND FOR SEVERAL YEARS, THE EUROPEAN ECONOMY ROUSED ITSELF IN 1994, WITH GROWTH PUSHING ABOVE 2.5%. ALTHOUGH THIS FIGURE WAS BELOW THE BRISK PACE OF THE LATE 1980S, WHICH SAW THREE YEARS OF BACK-TO-BACK GAINS AVERAGING 3.5%, IT WAS NEVERTHELESS A RESPECTABLE GAIN. IT WAS ALSO A REASSURING ONE: A MODERATE RATE OF GROWTH MEANS LESS CHANCE OF INFLATION.

TAKING THEIR CUE FROM COMPETITORS IN THE U.S., MANY EUROPEAN COMPANIES ARE RESTRUCTURING. AS A RESULT, PRODUCTIVITY — AND THEREFORE, EARNINGS — ARE EXPECTED TO EXPAND EVEN MORE IN COMING YEARS. THE MOST PROFITABLE EUROPEAN COMPANIES SHOULD BE IN SECTORS THAT SELL TO HIGH-GROWTH AREAS IN EMERGING MARKETS. A STRONG CAPITAL SPENDING CYCLE IS ALSO UNDER WAY, WHICH SHOULD PROFIT COMPANIES SPECIALIZING IN HIGH TECHNOLOGY AND INDUSTRIAL EQUIPMENT.

LOOKING TO THE LONG TERM, HIGHER LEVELS OF INVESTMENT IN EASTERN EUROPE SHOULD BENEFIT BOTH FLEDGLING CAPITALIST ECONOMIES AND ESTABLISHED ONES. ALSO FROM THE LONG-TERM PERSPECTIVE, SEVERAL MARKET ECONOMIES IN THE MIDDLE EAST AND ON THE AFRICAN CONTINENT OFFER THE PROMISE OF ACCELERATED GROWTH.

SOUTH AFRICA'S ECONOMY SHOWS PROMISE SINCE ITS TRANSITION TO MAJORITY RULE. THE COUNTRY'S ABUNDANT NATURAL RESOURCES AND DEVELOPED INFRASTRUCTURE GIVE IT ADVANTAGES IN THE GLOBAL MARKETPLACE.

AS THE EUROPEAN ECONOMY REVIVED AND [illegible] CIAL MARKETS [illegible] INNOVATIVE ACCESS TO CROSS-BORDER CAPITAL FLOWS CONTINUED TO BE THE RIGHT STRATEGY. The prestigious *International Financing Review* named Merrill Lynch Bond House of the Year in 1994, giving us top honors in both the international and U.S. bond markets, the first time any firm has ranked #1 in both sectors. *IFR* described Merrill Lynch as "the quickest to spot changes to intermediate many of the most significant cross-border capital flows."



Full Credit to Each Manager
Source: Securities Data Co.

We served a number of sovereign governments, helping them access capital on a global basis. For the Republic of Italy, we were global coordinators of a $4 billion floating rate note issue with an innovative multicurrency structure — U.S. dollars, yen and Deutsche marks — that offered investors the flexibility to balance their currency portfolios. When the Lebanese Republic set about rebuilding its infrastructure, our uninterrupted presence in that country uniquely positioned us to lead manage a $400 million Eurobond issue, representing its first entry into the international debt markets. And when Spain's Basque Country sought to raise capital in the U.S.— the first European regional entity to do so — it appointed us lead manager of a $150 million Yankee bond offering.



Merrill Lynch also played a significant role in meeting the needs of several of Europe's corporate giants. In Germany, we were co-bookrunner for Daimler-Benz in a $806 million secondary equity offering, the first German company to have an SEC-registered offering. For Dresdner Bank, a long-standing client, we underwrote a $686 million issue — the first Rule 144A common equity offering in the U.S. by any German bank.

In France, Merrill Lynch acted as lead manager for the U.S. tranche of a $4.9 billion global offering to privatize the French oil company Société Nationale Elf Aquitaine. We also advised Coflexip S.A. on its $343 million acquisition of Stena Offshore N.V. from Stena AB and acted



as global coordinator for Coflexip's $169 million secondary equity offering.

Another demonstration of our capital-raising strength was the 100% spin-off of Swedish-based Autoliv AB, the largest manufacturer of car-safety equipment, by its parent company, Electrolux. The $639 million issue represented the first use of the European equity markets for strategic asset divestment. *International Financing Review* named the transaction the European Equity Deal of the Year, describing it as "faultless."

Other Swedish transactions included two krona global bond transactions: a SKR2.5 billion ($325 million) issue for Swedish Export Credit Corporation, and a SKR1.5 billion ($195 million) issue for Nordic Investment Bank. In Finland, we served as global coordinator for the state-owned chemical group Kemira Oy's $274 million privatization — the largest such transaction in the country's history.

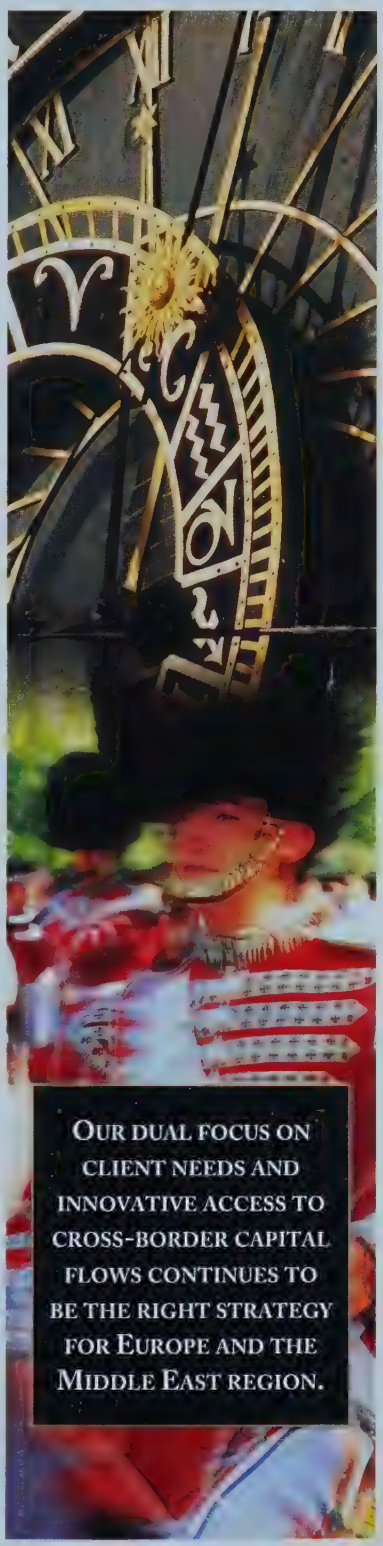
Companies throughout Europe made use of our innovative origination and distribution capabilities, as evidenced by our roles in numerous other equity offerings. We were global coordinators for a $491 million equity issue for KLM Royal Dutch Airlines and lead manager of a $164 million issue for the Luxembourg-based steel group ARBED S.A.

Superior strategic advisory services are particularly critical in an era of industry consolidation and intensified global competition. We were an advisor to B.A.T Industries p.l.c. in its $1 billion acquisition of The American Tobacco Company from American Brands Inc. We also advised BCP Branded Consumer Products AB in its $985 million acquisition by AB Volvo of the outstanding 26.1% of BCP.

In Ghana, we acted as lead manager of the U.S. tranche and senior co-lead manager for the European tranche in Ashanti Goldfields Company Limited's $428 million global offering. We also provided credit-ratings advice to Telkom and Transet, companies responsible for providing telecommunications and transport in South Africa.



Includes Global Bonds
Full Credit to Bookrunners
(Denotes industry ranking)
Source: Euromoney Bondware



Diverse Global Products

To meet the ever-growing needs of our corporate and institutional clients, we continue to enter new markets and expand our product offerings. In 1994, we became a gilt-edged market-maker in the United Kingdom, capturing more than 4% of the market. In France, we established a Maison de Titre (securities firm) in order to trade French government bonds. We also became members of the German futures exchange, Deutsche Termin Börse (DTB).

International Private Banking

Through a 1,000-strong network of Private Bankers and Financial Consultants, our International Private Banking Group offers growing numbers of clients the full range of cross-border, multicurrency investment opportunities and banking services. The core of our strategy is to build long-term relationships based on asset management and other private banking activities, including offshore mutual funds and discretionary managed accounts from Merrill Lynch Asset Management and Merrill Lynch Bank (Suisse) S.A. Our Swiss bank increased discretionary assets from $1.2 billion to $1.8 billion — its best year ever. International trust services and global deposits at Merrill Lynch International Bank (MLIB) also experienced strong growth.

Continuing to implement our private banking strategy, we converted our five German brokerage offices into MLIB branches, bringing the total in Europe and the Middle East to eight. Our Beirut office, founded 33 years ago, played an important role in the success of the Lebanese Republic's ground-breaking Eurobond issue. Nearly half the $400 million issue was bought by Private Banking clients throughout Europe and the Middle East.

ASIA PACIFIC AND JAPAN

The Asia Pacific region is a magnet for emerging market investors, and with good reason: many of the world's fastest growing economies are located there. In 1994, double-digit growth in the People's Republic of China and Singapore, and growth rates nearing that level in Malaysia and Thailand reflected the enormous potential of the region. These exceptional growth rates are not expected to slow. In fact, our analysts are predicting that $1 trillion in infrastructure improvements will be invested in the region — outside of Japan — over the next five years.

Inflation often accompanies surges in growth, and any pressure on pricing in the People's Republic — more than one-fourth of the region's GDP — could have a spillover effect on its neighbors. Even so, the thoroughness with which Asian and Pacific countries are liberalizing their economies and introducing reforms in finance, trade and investment should allow market forces to resolve inflationary imbalances.

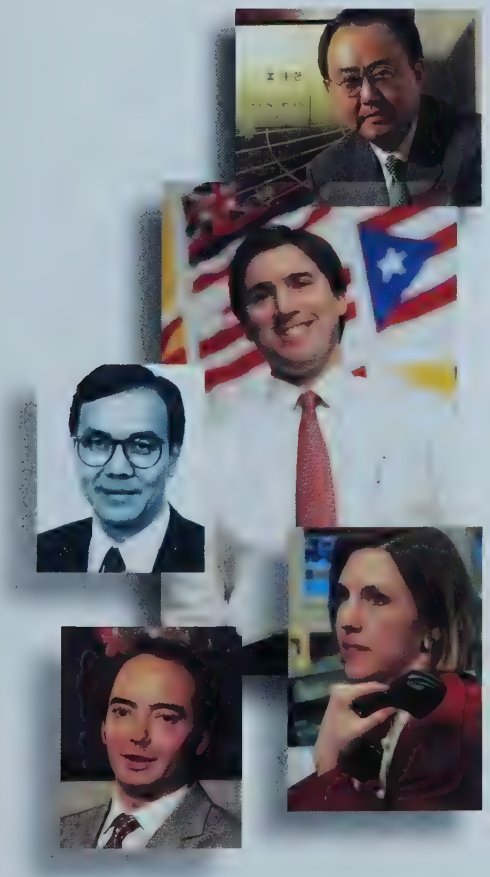
During the late 1980s, Japan averaged a 5% growth rate, contrasted with 1% in the first three years of this decade. However, the Japanese economy appears to be in a sustainable recovery. After it overcomes the impact of the recent tragic earthquake, the country's economy could again achieve the growth rates of the late 1980s.

Asia Pacific

ACTIVE IN THE ASIA PACIFIC REGION FOR MORE THAN 45 YEARS, MERRILL LYNCH IS IDEALLY POSITIONED TO HELP ISSUERS AND INVESTORS BENEFIT FROM THE REGION'S REMARKABLE SURGE IN ECONOMIC GROWTH. In recognition of our increasing strength, *Euroweek* named Merrill Lynch the best lead manager of Asian Equity and the Best Bank at Overall Capital Raising in the Asian Capital Markets.



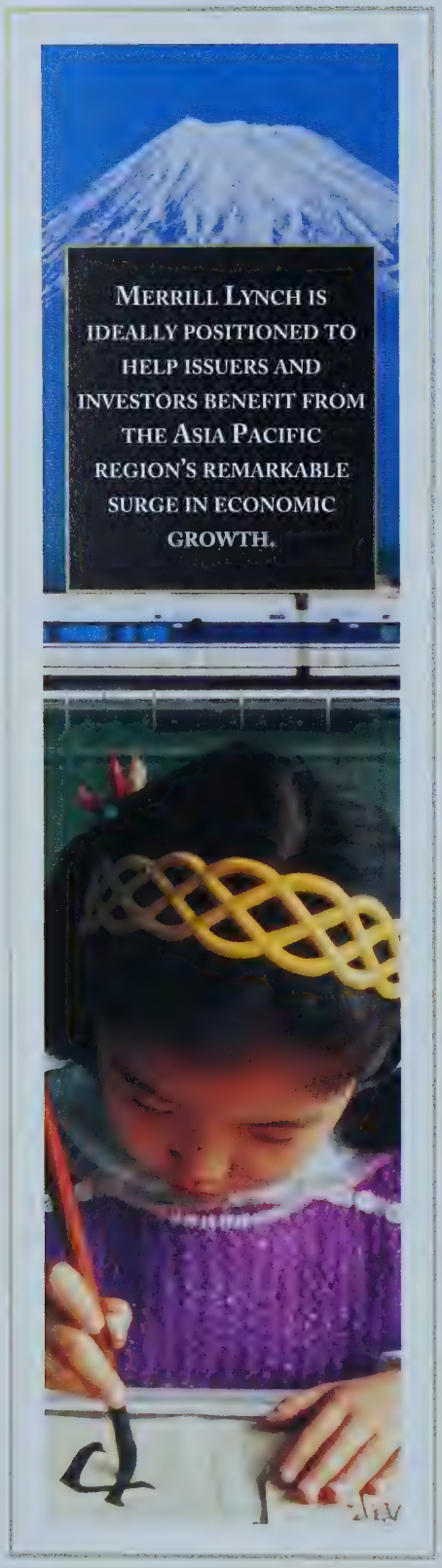
Full Credit to Bookrunners
** #1 non-Japanese Euroyen issuer*
(Denotes industry ranking)
Source: Euromoney Bondware



We served as global coordinator and lead manager for the $1.2 billion privatization of the P.T. Indonesian Satellite Corporation (Indosat) — the largest international IPO by an Asian company in 1994. A transaction that exemplified teamwork at its best, the Indosat issue involved a coordinated effort by investment bankers, research analysts and our sales and trading professionals worldwide. We helped a number of other Indonesian companies meet capital-raising goals, including P.T. Tri Polyta Indonesia, a producer of petrochemical plastics, for which we were global coordinator and lead manager of a $157 million IPO.

In Hong Kong, Swire Pacific Limited appointed us lead manager of a $300 million Rule 144A offering, a transaction named as a Deal of the Year by *Asiamoney*. We structured a HK$686 million ($85.7 million) Dragon MBS mortgage securitization offering backed by loans originated by Cheung Kong (Holdings) Limited. In the People's Republic of China, we opened a second office, this time in Beijing, and assisted the government by acting as sole lead manager for the Ministry of Finance's landmark $1 billion global bond offering. Through loan syndications, we helped raise funds for China Everbright, Sichuan Province and China Agribusiness.

In recognition of India's increasing market potential, we've entered into an agreement to acquire an equity interest in DSP Financial



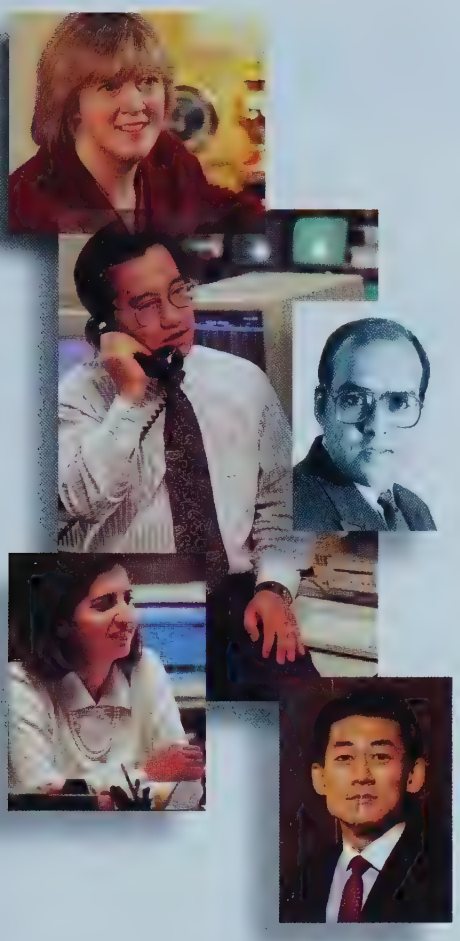
Consultants, a leading merchant bank there. We brought to market 14 Indian equity issues totaling $1.1 billion. In Malaysia, we led a two-tranche $375 million Euro-convertible bond issue for Technology Resources Industries Berhad; and in Thailand, a Rule 144A $160 million subordinated convertible bond for The Siam Commercial Bank Public Company Limited and a $150 million subordinated floating rate note for the Bank of Ayudhya Public Company Limited. And Korea's Hyundai Electronics Industries Co., Ltd. appointed us advisor in its acquisition of NCR Microelectronics Products Division from AT&T Global Information Solutions Company.

PosGold Finance Limited, part of Australia's Normandy Poseidon Group, issued a 10-year gold-denominated 500,000-ounce ($195 million) bond issue, with Merrill Lynch as sole lead manager — a transaction named a Deal of the Year by *Corporate Finance*.

Japan

We strengthened our leadership position in Japan, where we have been active for the past 33 years. We raised the equivalent of $8.3 billion in the Global yen and Euroyen markets, more than all other non-Japanese firms combined. For the eighth consecutive year, we were named the favorite foreign securities firm in a survey of 1,600 Japanese CFOs.

Amway Japan Limited, in the first public equity issue for a Japanese company offered simultaneously in Japan and the United States, sold 10 million shares to raise $378 million, with Merrill Lynch acting as a global coordinator. The transaction showcased our cross-border and distribution capabilities for Japanese clients.



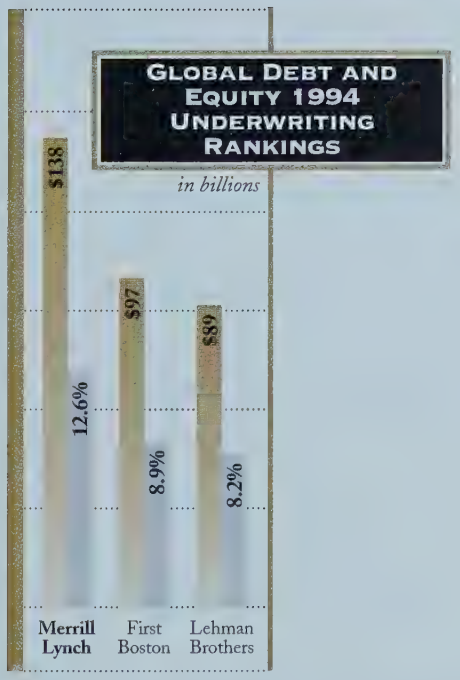
For the International Bank for Reconstruction and Development (World Bank), we were joint lead manager on a 200 billion yen ($2 billion) global bond. *Euroweek* named this transaction the Yen Deal of the Year.

We also served as sole lead manager on a 50 billion yen-denominated ($488.3 million) Eurobond offering for Toyota Motor Credit Corporation and a $600 million Eurobond issue for the newly privatized East Japan Railway Company, the largest railway company in the world.

International Private Banking

The extraordinary growth in the region has created a large number of affluent individuals and entrepreneurs with a pressing need for sophisticated, integrated asset- and liability-management services. Our International Private Banking Group is ideally suited to serve them. Our strengths are increasingly well recognized, with trust account assets of the region's clients registering a 45% increase in 1994.

To educate clients in the People's Republic of China in the complexities of the capital markets, Merrill Lynch Asset Management held the first-ever mutual-fund conference in Beijing. Mutual funds are also becoming an important investment vehicle in India. MLAM signed a memorandum of understanding with DSP Financial Consultants and its principal stockholder to establish a jointly owned mutual fund asset management business there.



Full Credit to Lead Managers
Percentages denote market share
Source: Securities Data Co.

FINANCIAL OBJECTIVES

MERRILL LYNCH'S PRIMARY FINANCIAL OBJECTIVE IS TO BUILD THE MARKET VALUE OF OUR SHAREHOLDERS' INVESTMENT IN THE FIRM BY APPLYING VALUE-BASED PLANNING PRINCIPLES ACROSS THE MAJOR FINANCIAL POLICY AREAS OF THE FIRM

Profitability

Merrill Lynch seeks to earn a return on common equity (ROE) averaging *at least* 15% over a full market cycle. This is the benchmark not only for the whole firm, but for its individual components as well. To judge performance, we assign equity to business units across the company to reflect their different risks, both on and off the balance sheet. This enables us to measure the contribution to shareholder value of each individual business area, and hold each area accountable for seeking to achieve the 15% return standard.

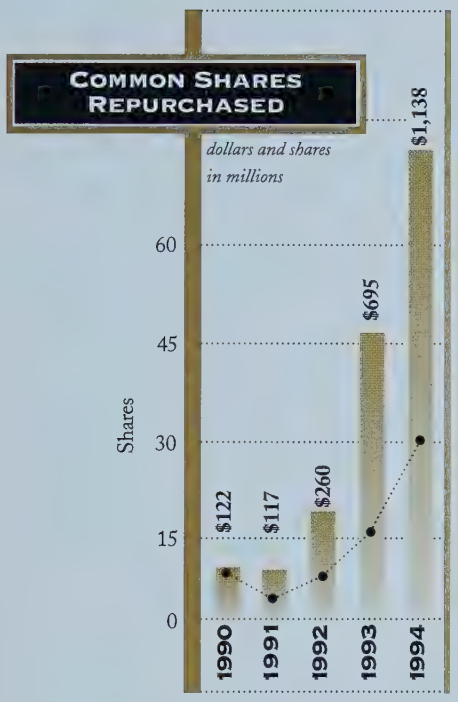
Profitability objectives are also strongly embedded in our compensation structure, through which we align employees' interests with those of our shareholders. We tie incentive compensation to Merrill Lynch's economic value added, which incorporates both earnings and ROE, and, at middle and senior management levels, we pay a significant portion of total compensation in restricted stock and options.

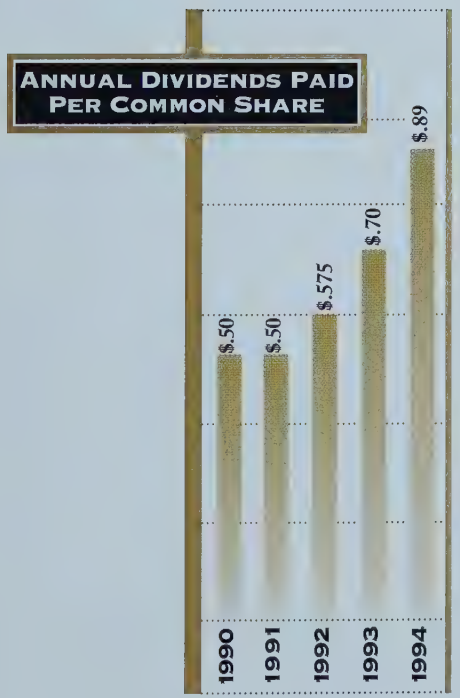
Growth

We strive to ensure that growth will be selective, *profitable* growth, carefully managed to be consistent with overall corporate strategy and sustaining at least a 15% ROE over the long term. Subject to meeting overall corporate strategic objectives, we will expand businesses that are expected to earn strong returns, and restructure or exit those that fall short.

RETURN ON AVERAGE COMMON STOCKHOLDERS' EQUITY







Risk Management

In addition to ROE, another key factor in the market's valuation of our stock is our cost of equity, which reflects our market-related risk as well as macroeconomic factors such as the level of interest rates. Merrill Lynch will continue to limit its risk profile through diversifying revenue sources and growing a stable base of recurring, fee-based revenues, along with decreasing our break-even point by controlling fixed costs. Other risk management objectives include continuing to focus our trading units on client-driven business, limiting proprietary risk-taking, and reducing to the extent practicable our long-term, illiquid assets. All of these strategies help stabilize earnings. Risk is further contained by maintaining and strengthening our financial and risk management control processes.

Balance Sheet Management

Our objective for the firm's capital is not a specific numerical target for "leverage," but rather a level of capital consistent with a double-A credit rating. Particular leverage ratio targets will depend on the mix of business activities, so that a less risky profile will accommodate a higher leverage ratio. To the extent that we have excess equity relative to our estimated equity requirements, we will actively continue to return the excess to shareholders through share repurchases.

Liquidity and Funding

To provide liquidity under all market conditions, our first objective is to maintain the highest quality and most liquid assets that we can. Second, in managing our funding programs, we have a contingency financing plan based on maintaining alternative sources of short-term funding and back-up credit facilities. We also enhance liquidity through ensuring that ample long-term debt and equity are in place relative to less liquid and non-marginable assets. In addition, we match the interest rate exposures of our assets and liabilities and diversify our funding sources, seeking to minimize our overall cost of funding.

Dividend Policy

The firm's objective for dividends is to maintain a competitive market yield, considering conservative increases when we are confident we can sustain any new level of dividends under adverse business conditions, without impairing capital planning flexibility.

SELECTED FINANCIAL DATA

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1994	1993	1992	1991	1990
	(52 Weeks)	*(53 Weeks)*	*(52 Weeks)*	*(52 Weeks)*	*(52 Weeks)*
Operating Results					
Revenues	$ 18,233,091	$ 16,588,177	$ 13,412,668	$ 12,352,812	$ 11,147,229
Interest Expense	8,608,570	6,029,947	4,835,267	5,106,344	5,363,900
Net Revenues	9,624,521	10,558,230	8,577,401	7,246,468	5,783,329
Non-Interest Expenses	7,894,917	8,133,422	6,956,012	6,229,050	5,501,001
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	1,729,604	2,424,808	1,621,389	1,017,418	282,328
Income Tax Expense	712,843	1,030,449	668,984	321,301	90,472
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 1,016,761	$ 1,394,359	$ 952,405	$ 696,117	$ 191,856
Net Earnings	$ 1,016,761	$ 1,358,939	$ 893,825	$ 696,117	$ 191,856
Net Earnings Applicable to Common Stockholders	$ 1,004,050	$ 1,353,558	$ 887,486	$ 678,392	$ 167,932
Financial Position					
Total Assets	$163,749,327	$152,910,362	$107,024,173	$ 86,259,343	$ 68,129,527
Short-Term Borrowings *(a)*	$ 78,304,239	$ 79,632,477	$ 51,179,530	$ 38,697,544	$ 27,340,915
Long-Term Borrowings	$ 14,863,383	$ 13,468,900	$ 10,871,100	$ 7,964,424	$ 6,341,559
Total Stockholders' Equity	$ 5,817,545	$ 5,485,913	$ 4,569,104	$ 3,818,088	$ 3,225,430
Tax Information					
Other Taxes, Principally Payroll and Property	$ 254,862	$ 223,377	$ 221,930	$ 191,291	$ 169,457
Total Taxes *(b)*	$ 967,705	$ 1,253,826	$ 890,914	$ 512,592	$ 259,929
Common Share Data					
Primary:					
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 4.75	$ 6.14	$ 4.18	$ 3.01	$.80
Net Earnings	$ 4.75	$ 5.98	$ 3.92	$ 3.01	$.80
Fully Diluted:					
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 4.74	$ 6.11	$ 4.17	$ 2.95	$.80
Net Earnings	$ 4.74	$ 5.95	$ 3.91	$ 2.95	$.80
Weighted Average Shares Outstanding:					
Primary	211,241,000	226,331,000	226,402,000	225,350,000	211,052,000
Fully Diluted	211,695,000	227,480,000	226,854,000	229,916,000	211,052,000
Shares Outstanding at Year-End *(c)*	181,479,127	203,989,691	207,202,688	205,443,636	199,669,270
Shares Repurchased	29,988,523	16,345,568	10,653,858	5,919,852	11,779,712
Average Share Repurchase Price	$ 37.96	$ 42.55	$ 24.36	$ 19.70	$ 10.32
Book Value	$ 28.87	$ 26.17	$ 21.37	$ 17.88	$ 14.99
Total Taxes *(b)*	$ 4.58	$ 5.54	$ 3.94	$ 2.27	$ 1.23
Dividends Paid	$.89	$.70	$.575	$.50	$.50
Financial Ratios					
Pretax Margin *(d)*	18.0%	23.0%	18.9%	14.0%	4.9%
Profit Margin *(e)*	10.6%	13.2%	11.1%	9.6%	3.3%
Common Dividend Payout Ratio	17.5%	10.9%	13.5%	15.2%	61.8%
Return on Average Assets	0.6%	1.0%	0.8%	0.8%	0.3%
Return on Average Common Stockholders' Equity	18.6%	27.3%	22.0%	20.8%	5.8%
Leverage	32.0x	27.4x	25.1x	24.1x	22.9x
Adjusted Leverage *(f)*	18.9x	16.6x	15.9x	16.3x	15.3x
Other Statistics					
Number of Full-Time Employees	43,800	41,900	40,100	38,300	39,000
Number of Financial Consultants and Account Executives	13,400	13,100	12,700	12,100	11,800

(a) Short-Term Borrowings include repurchase agreements, and commercial paper and other short-term borrowings.

(b) Excludes $25,075 and $73,065 of income taxes in 1993 and 1992, respectively, related to the cumulative effect of changes in accounting principles.

(c) Does not include 6,427,091, 8,932,332, 11,201,672, 13,636,820, and 16,071,968 unallocated reversion shares held in the Employee Stock Ownership Plan at year-end 1994, 1993, 1992, 1991, and 1990, respectively, which are not considered outstanding for accounting purposes.

(d) Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles to Net Revenues.

(e) Earnings Before Cumulative Effect of Changes in Accounting Principles to Net Revenues.

(f) Average total assets less resale agreements and securities borrowed, to average total stockholders' equity.

Management's Discussion of Financial Responsibility

Management of Merrill Lynch & Co., Inc. is responsible for preparing the financial statements and related notes contained in the Annual Report. The consolidated financial statements and notes are prepared in accordance with generally accepted accounting principles. Other financial data included in the Annual Report are consistent with those in the financial statements.

Management recognizes the importance of safeguarding the Corporation's integrity and understanding the risks of its businesses. Therefore, Management devotes considerable attention to promoting the highest standards of ethical conduct, exercising responsible stewardship over the Corporation's assets, and presenting fair financial statements.

The Corporation regularly reviews its framework of internal controls, taking into account changing circumstances. Corrective actions are taken to address control deficiencies and other opportunities for improvement are implemented when cost effective.

The framework of internal control includes policies, procedures, and organizational structures which are overseen by a predominantly independent Board of Directors. Several committees of the Board actively participate in setting policy and monitoring controls. The Audit and Finance Committee, consisting entirely of independent directors, examines the Corporation's compliance with acceptable business standards and ethics. It also reviews significant financial issues and recommends overall policies regarding risk and funding requirements. The Management Development and Compensation Committee, also composed entirely of independent directors, oversees procedures for developing and assessing the performance of the Corporation's employees with an emphasis on ethical business behavior.

Oversight is provided by independent units within the Corporation, working together to maintain the Corporation's internal control standards.

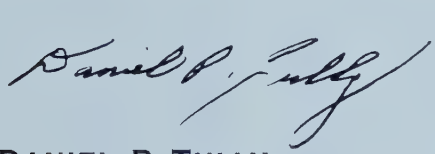
Corporate Audit reports directly to the Audit and Finance Committee, providing independent appraisals of the Corporation's internal accounting controls and compliance with established policies and procedures.

Finance establishes accounting policies and procedures, measures and monitors financial risk, and prepares financial statements that fairly present the underlying transactions and events of the Corporation.

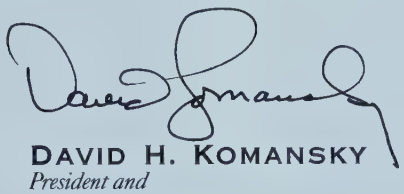
Corporate Credit monitors credit exposure while working with the business groups in controlling credit risk. Risk Management reports directly to the President and Chief Operating Officer and is independent from business line management. Risk Management establishes parameters for market risk assumed by the Corporation and has clear authority to enforce trading limits. This group uses various systems and procedures to monitor positions and risks.

Law and Compliance serves in a counseling and advisory role to Management. In this role, these groups develop policies and monitor compliance with internal policies, external rules, and industry regulations.

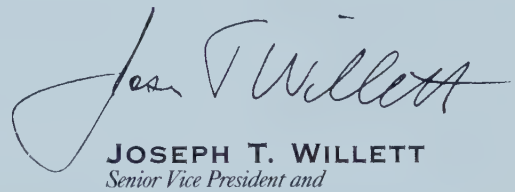
The Corporation's independent auditors, Deloitte & Touche LLP, perform annual audits of our financial statements in accordance with generally accepted auditing standards, including a review of the internal accounting control system. Our independent auditors are appointed each year by the Audit and Finance Committee and are given unrestricted access to all financial records and related data, including minutes of meetings of stockholders, Board of Directors, and committees of the Board.



Daniel P. Tully
Chairman and
Chief Executive Officer



David H. Komansky
President and
Chief Operating Officer



Joseph T. Willett
Senior Vice President and
Chief Financial Officer

Description of Business

Merrill Lynch & Co., Inc. ("ML&Co.") is a holding company that, through its subsidiaries and affiliates, provides investment, financing, insurance, and related services on a global basis. Its principal subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), one of the largest securities firms in the world, is a leading broker in securities, options contracts, and commodity and financial futures contracts; a leading dealer in options and in corporate and municipal securities; a leading investment banking firm that provides advice to, and raises capital for, its clients; and an underwriter of selected insurance products. Other subsidiaries provide financial services on a global basis similar to those of MLPF&S and are engaged in such other activities as international banking, lending, and providing other investment and financing services. Merrill Lynch International Incorporated, through subsidiaries and affiliates, provides investment, financing, and related services outside the United States and Canada. Merrill Lynch Government Securities Inc. is a primary dealer in obligations issued or guaranteed by the U.S. Government and by Federal agencies or instrumentalities. Merrill Lynch Capital Services, Inc., Merrill Lynch Derivative Products, Inc., and Merrill Lynch Capital Markets PLC are ML&Co.'s primary derivative product dealers and enter into interest rate and currency swaps and other derivative transactions as intermediaries and as principals. Merrill Lynch Asset Management is one of the largest mutual fund managers in the world and provides investment advisory services. ML&Co.'s insurance underwriting operations consist of the underwriting of life insurance and annuity products. Banking, trust, and mortgage lending operations conducted through ML&Co. subsidiaries include issuing certificates of deposit, offering money market deposit accounts, making secured loans, and providing foreign exchange trading facilities and other related services.

BUSINESS ENVIRONMENT

Merrill Lynch & Co., Inc. and its subsidiaries (collectively referred to as the "Corporation") conduct their businesses in global financial markets that are influenced by a number of factors including economic and market conditions, political events, and investor sentiment. The reaction of issuers and investors to a particular condition or event is unpredictable and can create volatility in the marketplace. While higher volatility can increase risk, it may also increase order flow, which drives many of the Corporation's businesses. Other global market and economic conditions, including the liquidity of secondary markets, the level and volatility of interest rates, currency and security valuations, competitive conditions, and the size, number, and timing of transactions may also affect earnings. As a result, revenues and net earnings can vary significantly from year to year, and from quarter to quarter.

Financial markets, strong from 1991 through the first six weeks of 1994, changed significantly after inflationary fears prompted the Federal Reserve to increase short-term interest rates in February 1994. As the U.S. economy continued to expand, the Federal Reserve acted to further curb inflation and to moderate growth by increasing short-term interest rates five additional times during the year. The combination of rising interest rates, a falling U.S. dollar, unsettled global stock, bond, and currency markets, reduced foreign investment in U.S. financial markets, and overall investor caution contributed to lower earnings for most U.S. securities firms.

Institutional trading results were affected by rising interest rates and volatility in world currency and securities markets. Trading in interest-sensitive products and equities, particularly convertible securities, was generally lower industrywide. Foreign exchange trading decreased due to a weakening in the U.S. dollar versus other major currencies. Values of emerging market inventories declined due primarily to higher interest rates, increased political uncertainty, and the devaluation of the Mexican peso in the 1994 fourth quarter. Trading in swaps and other derivative products continued at relatively strong levels as global investors continued to use these instruments to manage exposure to changes in interest rates and currency values. Reaction to highly publicized losses, however, resulted in reduced activity in certain complex or structured derivatives transactions.

Investment banking results were mixed in 1994. Underwriting volumes were down sharply, while merger and acquisition and advisory assignments increased, approaching the record transaction value levels of 1988. Domestic underwriting volumes for debt and equity securities declined to their lowest levels since 1991. In 1994, new domestic stock and bond issuance volume fell 33% to $711 billion industrywide, with initial public offerings down 41% from last year. Worldwide, aggregate underwriting volume for new stock and bond issues decreased 27% from 1993.

Strategic services revenues were strong in 1994 and benefited from increased merger and acquisition and advisory services activity, primarily in the healthcare, communication, defense, and financial services industries. Companies seeking strategic alliances were helped by a stronger economy, higher cash flows related to recent balance sheet restructurings and improved operating results, and attractive market values of target companies. Many European multinational companies continued to increase their presence in the U.S. through acquisition or joint venture activities. Cross-border merger and acquisition activity, particularly in Europe, increased as global financial markets developed and trade liberalization continued. Frontier barriers were lowered within Europe and Latin America, the European Union expanded to 15 countries, and the North American Free Trade Agreement entered its second year. Further development of global financial markets improved the access to capital. The privatization of state-run enterprises by a record number of countries continued to provide financing for reinvestment to stimulate economic growth.

Institutional and individual investors continued to diversify their portfolios, but remained cautious as market conditions changed. As interest rates increased throughout 1994, investors redirected assets from longer-term bond funds to stock funds and more liquid investments, such as short-term U.S. Treasury securities and money market instruments. Foreign investors were less active in U.S. markets, while international mutual funds continued to attract new U.S. investors.

The financial services industry is cyclical. As a result, the Corporation's businesses are evaluated across market cycles for profitability and alignment with long-term strategic objectives. Fiscal 1994 was characterized by adverse financial markets and changing economic conditions. The Corporation seeks to mitigate the effect of market cycles by closely monitoring costs and risks, continuing to diversify revenue sources, and expanding its global presence.

RESULTS OF OPERATIONS

Unsettled global financial markets in 1994 contributed to reduced volumes for many of the Corporation's businesses. These business conditions contributed to progressively lower quarterly net earnings for the Corporation in 1994. Net earnings for 1994 were $1.02 billion or $4.75 per common share primary ($4.74 fully diluted), down 25% from record 1993 earnings of $1.36 billion or $5.98 per common share primary ($5.95 fully diluted). In 1992, net earnings were $893.8 million or $3.92 per common share primary ($3.91 fully diluted).

The 1993 results included the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112, *Employers' Accounting for Postemployment Benefits*. The cumulative effect of this change in accounting principle decreased 1993 net earnings by $35.4 million or $.16 per common share primary and fully diluted. Earnings before the cumulative effect charge were $1.39 billion or $6.14 per common share primary ($6.11 fully diluted).

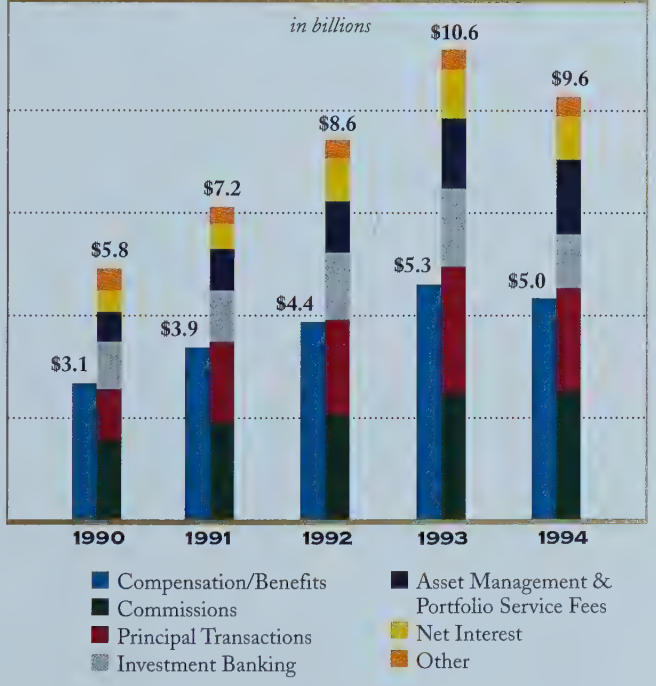
Results for 1993 also included a non-recurring first quarter pretax lease charge totaling $103.0 million ($59.7 million after income taxes), related to the Corporation's decision not to occupy certain space at the World Financial Center Headquarters ("Headquarters") facility. This space was sublet during 1994.

In 1992, the Corporation adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* and SFAS No. 109, *Accounting for Income Taxes*. The cumulative effect of these changes in accounting principles reduced 1992 net earnings by $58.6 million or $.26 per common share primary and fully diluted. Earnings before the cumulative effect adjustment were $952.4 million or $4.18 per common share primary ($4.17 fully diluted).

Pretax earnings in 1994 were $1.73 billion, down 29% from $2.42 billion reported in 1993. In 1992, pretax earnings were $1.62 billion. The pretax profit margin on net revenues was 18.0% in 1994, compared with 23.0% in 1993 and 18.9% in 1992.

Total revenues for 1994 were $18.23 billion, up 10% and 36%, respectively, from the previous record levels of 1993 and 1992. In 1994, net revenues (revenues after interest expense) totaled $9.62 billion, down 9% from $10.56 billion in 1993. Net revenues in 1992 were $8.58 billion.

NET REVENUE CATEGORIES AND COMPENSATION AND BENEFITS



Non-interest expenses were $7.89 billion in 1994, down 3% from 1993 and up 13% from 1992. Excluding the non-recurring 1993 pretax lease charge of $103.0 million, non-interest expenses declined 2% from 1993. In 1994, many expense categories decreased as business activity slowed. Incentive compensation declined due to lower profitability, while production-related Financial Consultant compensation and advertising expenses were affected by lower business volumes. Occupancy costs benefited from relocations to lower-cost facilities and last year's decision to vacate and sublet additional Headquarters space.

The Corporation actively manages its expense structure by monitoring the mix of variable and fixed expenses. In 1994, certain discretionary projects were reduced based on market conditions.

The after-tax profit margin in 1994 was 10.6%, compared with 13.2% (12.9% after the cumulative effect of accounting change) in 1993 and 11.1% (10.4% after the cumulative effect of accounting changes) in 1992. The Corporation's return on average common stockholders' equity was 18.6% in 1994, compared with 27.3% and 22.0% in 1993 and 1992, respectively.

The 1994 financial statements contain limited reclassification and format changes. Prior years' financial statements have been reclassified to conform to the presentation for the current period. (See Basis of Presentation in the Notes to Consolidated Financial Statements.)

The following discussion provides details of major categories of revenues and expenses and other pertinent information regarding the Corporation's business activities, financial condition, liquidity, and risks.

COMMISSIONS

Commission revenues were $2.87 billion in 1994, virtually unchanged from $2.89 billion reported in 1993. Higher commission revenues from mutual funds and commodity transactions were offset by lower revenues from money market instruments, particularly medium-term notes, and listed securities transactions.

Mutual fund commissions increased 4% in 1994 to $879 million due primarily to higher distribution and redemption fees offset by lower levels of mutual fund sales. Revenues from front-end mutual funds were down 31% to $343 million. As stock and bond mutual fund net asset values declined during 1994, investors became more conservative, directing both existing and new funds into alternative short-term investments such as U.S. Treasury bills and other money market instruments. For the first time since 1974, both stock and bond funds fell in value, on average, in the same year. U.S. stock funds, including dividends, lost 1.69% in value and taxable bond funds fell 3.70%, industrywide. For global investors, stock funds declined 0.71% and bond funds fell 7.45% in 1994. Distribution fees from deferred-charge funds increased 58% to $460 million based on increased asset levels primarily attributable to strong fund sales in prior periods. Redemption fees increased 34% to $76 million as clients repositioned invested assets.

Commissions from listed securities were $1.36 billion, down 3% from 1993. Although volume was up on domestic stock exchanges, the Corporation's domestic listed securities commission revenues were 5% lower in 1994. This decline reflects a change in the relative amount of transactions by institutional clients versus retail clients. In 1994, domestic stock market activity, as measured by New York Stock Exchange ("NYSE") average daily trading volume, was 291 million shares. This average daily trading volume was 10% higher than 1993. The Dow Jones Industrial Average ("DJIA") daily closing index for 1994 averaged 3,794, 8% above the 1993 daily average close. Revenues from listed

securities on international stock exchanges increased as a result of higher demand and the Corporation's expanded presence in financial markets worldwide.

Commissions on commodities transactions increased 21% to $217 million due to an increase in commodity-related hedge activities. Commissions on money market instruments declined 34% in 1994 to $109 million primarily due to lower demand for higher commission products. The continued rise in interest rates during the period led investors to seek liquidity and principal protection in shorter-term instruments.

Other commission revenues, consisting primarily of over-the-counter, option, and insurance products, increased 2% to $305 million from $300 million in 1993.

In 1993, commission revenues advanced 19% from 1992 due primarily to the continued growth of listed securities transactions and increased sales of mutual funds, regulated commodities contracts, and over-the-counter securities. Listed securities commissions benefited from increased market participation as investors repositioned their investment portfolios to enhance potential yield and growth opportunities. Mutual fund commissions rose as individual investors shifted maturing certificates of deposit and other low-yielding cash investments into domestic and global equity mutual funds and, to a lesser extent, fixed-income mutual funds. Other commission revenues advanced 9% from 1992 levels.

INTEREST AND DIVIDENDS

Significant components of interest and dividend revenues and interest expense for 1994, 1993, and 1992, follow:

(In Millions)	1994	1993	1992
Interest and dividend revenues:			
Trading assets	$3,431	$2,493	$2,007
Securities borrowed	2,285	1,521	823
Resale agreements	1,807	1,161	1,066
Margin lending	1,018	779	598
Other	1,037	1,145	1,312
Subtotal	9,578	7,099	5,806
Interest expense:			
Borrowings	3,381	2,515	1,697
Repurchase agreements	2,414	1,383	1,225
Trading liabilities	1,997	1,252	931
Other	817	880	982
Subtotal	8,609	6,030	4,835
Net interest and dividend profit	$ 969	$1,069	$ 971

Included in the "Borrowings" caption above is interest related to hedges on the Corporation's borrowings. As part of the Corporation's asset, liability, and liquidity management strategies, substantially all fixed-rate, long-term borrowings are swapped into floating interest rates, while virtually all foreign currency-denominated fixed-rate obligations are swapped into U.S. dollar variable rate liabilities. These liability hedges are in the form of interest rate and currency swap agreements. Interest obligations on variable rate debt may also be modified through swap agreements that change the underlying interest rate basis or reset frequency. Contractual agreements used to modify payment obligations, principally related to long-term borrowings, reduced interest expense for 1994, 1993, and 1992 by $153 million, $326 million, and $246 million, respectively.

Interest and dividend revenues increased 35% in 1994 to $9.58 billion due to higher average levels of interest-earning assets, principally inventories and resale agreements, as well as increased interest rates. Interest expense, which includes dividend expense, increased 43% to $8.61 billion due to increased levels of interest-bearing liabilities, primarily related to the Corporation's funding and hedging activities, and higher interest rates. Net interest and dividend profit declined 9% to $969 million as a significant increase in short-term interest rates, year over year, led to a substantial flattening of the yield curve. The change in the yield curve, the relationship between interest rates and maturities, resulted from short-term interest rates rising faster than long-term interest rates during 1994. The one-year U.S. Treasury bill rate, for example, increased from 3.58% at December 31, 1993 to 7.16% at December 30, 1994, while the 30-year U.S. Treasury bond yield increased from 6.35% to 7.88% during the same period. As a result, interest spreads declined, while financing and hedging costs increased from 1993.

In 1993, net interest and dividend profit increased 10% over 1992 to $1.07 billion. Contributing to this increase were the expansion of collateralized borrowing and lending activities, growth in trading inventories and on-balance-sheet hedges, the increased availability of interest-free funds due to a larger equity base, and reduced funding costs due to lower interest rates and improved credit ratings.

PRINCIPAL TRANSACTIONS

Principal transactions revenues fell 20% from 1993 record levels to $2.33 billion in 1994. Rising interest rates, a declining U.S. dollar, and volatile world financial markets led to lower trading results in many products. Revenues from taxable fixed-income securities, equities and equity derivatives, and foreign exchange and commodities decreased, while interest rate and currency swaps, and municipal securities revenues increased.

Taxable fixed-income trading revenues declined 52% in 1994 to $462 million as higher interest rates, wider credit spreads, and uncertainty in emerging markets led to reduced demand and lower inventory values. U.S. Government and agencies securities revenues were down 7% to $253 million. Corporate bonds and preferred stock revenues, in the aggregate, decreased 72% to $111 million and were affected by wider credit spreads and lower trading volume. Non-U.S. governments and agencies revenues were down 89% to $20 million due primarily to increased interest rates, political uncertainty, and the devaluation of the Mexican peso in the 1994 fourth quarter. High-yield bond revenues declined 61% to $27 million. Rising interest rates reduced inventory values and market liquidity, and renewed credit concerns related to lower quality issues.

Equities and equity derivatives trading revenues were $627 million, 28% lower than 1993. Trading revenues were down in virtually all categories, including convertible securities, which reported a $66 million loss for the year. Rising interest rates combined with falling equity values contributed to the loss. Approximately 40% of this loss occurred in the 1994 fourth quarter as the Corporation reduced inventory levels to limit exposure to interest rate volatility. Lower revenues were also reported for foreign and over-the-counter equities.

Foreign exchange and commodities revenues, in the aggregate, declined 31% to $109 million. Weakness in the U.S. dollar versus other major currencies depressed foreign exchange trading, while commodities trading revenues benefited from increased volume.

Revenues from interest rate and currency swaps rose 24% to $749 million due to the continued growth of these products as effective risk management tools, enhanced market liquidity, and increased global demand. (See discussion of Derivative Financial Instruments.) The revenue increase is primarily attributable to U.S. dollar-denominated swap trading activities. U.S. dollar-denominated swap trading revenues increased as institutional clients continued to use these instruments to manage interest rate risk, which included the restructuring of existing contracts as the interest rate environment changed. Non-dollar swap trading revenues declined due to currency and interest rate volatility, particularly in European markets, partially offset by higher volume.

Municipal securities revenues increased 20% to $388 million due to strong retail investor demand for tax-exempt investments. Higher interest rates led to increased after-tax returns for this product in 1994.

In 1993, principal transactions revenues reached record levels, up 35% from 1992 to $2.92 billion. Taxable fixed-income trading revenues increased 31% due to favorable market conditions for corporate bonds and preferred stocks, and non-U.S. governments and agencies securities. Revenues from interest rate and currency swaps advanced 55%, benefiting from increased volume and market growth, as well as an expanding product base. Equities and equity derivatives revenues rose 42% principally on the strength of increases in revenues from international equities and improvement in revenues from U.S. over-the-counter markets. Municipal securities revenues increased 20% based on increased client demand for tax-exempt securities.

Trading, hedging, and financing activities affect the recognition of both principal transactions revenues and net interest and dividend profit. In assessing the profitability of financial instruments, the Corporation views net interest and principal transactions components in the aggregate. For financial reporting purposes, however, realized and unrealized gains and losses on trading positions, including hedges, are recorded in principal transactions revenues. The net interest carry (i.e., the spread representing interest earned versus financing costs on financial instruments) for trading positions, including hedges, is recorded either as principal transactions revenues or net interest profit, depending on the nature of the specific position. Interest income or expense on a U.S. Treasury security, for example, is reflected in net interest, while any realized or unrealized gain or loss is included in principal transactions. Financial instruments requiring forward settlement, such as "to be announced" mortgage pools, have interest components built into their market value; any change in market value, however, is recorded in principal transactions revenues. Changes in the composition of trading inventories and hedge positions can cause the recognition of revenues within these categories to fluctuate. Consequently, net interest and principal transactions revenue components should be evaluated collectively.

The table that follows provides information on aggregate trading profits, including net interest. Principal transactions revenues are based on financial reporting categories. Interest revenue and expense components are based on financial reporting categories and management's assessment of the cost to finance trading positions, which considers the underlying liquidity of these positions.

(In Millions)	Principal Transactions Revenue	Net Interest Revenue (Expense)	Net Trading Revenue
1994			
Taxable fixed-income	$ 462	$371	$ 833
Interest rate and currency swaps	749	(24)	725
Equities and equity derivatives	627	(107)	520
Municipals	388	7	395
Foreign exchange and commodities	109	(9)	100
Total	$2,335	$238	$2,573
1993			
Taxable fixed-income	$ 964	$412	$1,376
Interest rate and currency swaps	605	28	633
Equities and equity derivatives	871	(45)	826
Municipals	322	–	322
Foreign exchange and commodities	158	(1)	157
Total	$2,920	$394	$3,314
1992			
Taxable fixed-income	$ 736	$366	$1,102
Interest rate and currency swaps	390	75	465
Equities and equity derivatives	614	(23)	591
Municipals	268	(1)	267
Foreign exchange and commodities	158	2	160
Total	$2,166	$419	$2,585

INVESTMENT BANKING

Investment banking revenues were $1.24 billion in 1994, down 32% from record 1993 levels. Market conditions were significantly different in 1994 compared with the prior two

years. In 1992 and 1993, low interest rates were the key factor behind the surge in underwriting activity. As interest rates moved higher and share prices fell, issuers and investors became more selective, leading to reduced volumes for most products. As a result, underwriting of domestic debt and equity securities declined industrywide to the lowest level since 1991. Underwriting revenues declined in almost all categories, with significant decreases in equities, corporate bonds and preferred stock, and convertible securities. Partially offsetting these declines were higher underwriting revenues from asset-backed securities. Equity issuances, especially initial public stock offerings, were adversely affected by reduced demand attributable primarily to investor caution. Higher interest rates curtailed debt issuance, particularly refinancings. In 1994, new stocks and bonds issued in domestic markets totaled $711 billion, a 33% decline from 1993. Domestic initial public offerings were 41% lower in 1994 compared with 1993.

Despite unfavorable market conditions and lower volumes, the Corporation retained its position as top underwriter for the seventh consecutive year domestically and sixth consecutive year globally. The Corporation's domestic and global share of underwriting volume in 1994 was 16.5% and 12.6%, respectively, versus 16.4% and 12.8% in the year-earlier period, according to Securities Data Co.

Foreign issuers continued to access U.S. capital markets in 1994. New issues from outside the U.S. accounted for more than 30% of equities sold in domestic markets industrywide. International underwriting activity also benefited from privatizations of state-owned industries in Europe and Latin America. In 1994, international equity underwritings represented 16% of the Corporation's total equity underwritings, compared with 5% in 1993.

Strategic services revenues, which include fees for debt restructuring, merger and acquisition activity, and other advisory services, increased 36% to $251 million. Companies worldwide sought strategic partners to capitalize on business opportunities attributable to lower trade barriers and to promote growth and financial strength. In 1994, the volume of announced global mergers and acquisitions advisory deals reached $534 billion industrywide. The Corporation's market share of announced global deals was 10.3% in 1994, up from 7.9% in 1993, according to Securities Data Co.

In 1993, investment banking revenues increased 23% from 1992 to a record $1.83 billion, as lower interest rates and higher share prices spurred underwriting activity. These favorable conditions led to significant balance sheet refinancings and reissuance of debt by corporate treasurers, and increased demand for equity securities. Strategic services revenues grew 5% to $184 million in 1993.

ASSET MANAGEMENT AND PORTFOLIO SERVICE FEES

Revenues from asset management and portfolio service fees rose 12% in 1994 to a record $1.74 billion as a result of higher fees earned from asset management activities and other fee-based services.

Asset management fees, which include fees earned on mutual funds sponsored by the Corporation and third parties, increased 12% from 1993 to $794 million. In 1994, approximately 90% of asset management fees were attributable to Merrill Lynch-sponsored funds. During the period, assets under management increased in money market and equity funds, but decreased in bond funds as investors redeployed assets. Despite lower asset values, assets under management by Merrill Lynch Asset Management ("MLAM") increased due principally to new money investments in 1994.

The Corporation's strategy of advising clients to (i) prepare a plan to establish financial objectives; (ii) begin saving early and methodically to achieve short- and long-term financial goals; (iii) use mutual funds as long-term investments; and (iv) allocate assets by type (i.e., stocks, bonds, cash) and by region (i.e., domestic and international) to achieve greater after-tax returns and diversification, contributed to increased levels of assets under management.

Assets under management by MLAM increased 2%, or $3 billion, to $164 billion. As indicated earlier, the increase was attributable to money market and stock funds, which grew by $8 billion to $104 billion. Bond funds, representing 22% of assets under management, declined $6 billion in 1994 to $36 billion. Assets under management also include private portfolio assets of $20 billion and investments of insurance subsidiaries totaling $4 billion. Private portfolio assets represent funds related to privately managed individual and institutional accounts. Investments of insurance subsidiaries support the insurance liabilities for fixed-rate life insurance and annuity products.

Portfolio service fees increased 19% in 1994 to $438 million based on the continued growth of products offering multiple investment services. Fees from Merrill Lynch Consults® ("ML Consults"), a portfolio management service, increased 4% in 1994 to $306 million due primarily to higher asset levels during the 1994 first quarter. Fee levels during the remainder of the year declined due to a reduction in asset levels and a decrease in the number of accounts. At December 30, 1994, asset values for ML Consults were $14.4 billion, down 15% from 1993. The approximate number of accounts totaled 78,500, compared with 87,000 at year-end 1993. Fee revenues also advanced in Mutual Fund Advisor ("MFA℠"), a personalized portfolio management service, and Asset Power®, a product with fees and transaction limits based on asset levels. Combined revenues from MFA and Asset Power accounts increased 177% to $36 million. Assets under management for these products totaled $3 billion representing approximately 22,900 accounts. Other portfolio service fees, principally insurance and trust fees, increased 57% to $96 million.

Other fee-based revenues were up 5% from 1993 to $508 million due primarily to increased revenues from transfer agency, CMA®, IRA, and Keogh fees.

Total client assets in worldwide private client accounts were $568 billion at year-end 1994 compared with $557 billion at year-end 1993. In 1994, client accounts were redefined to include certain institutional private portfolio accounts

managed by the Corporation. Prior years' client account assets have been restated.

In 1993, asset management and portfolio service fee revenues rose 24% to $1.56 billion, principally as a result of increased fees earned from asset management activities, the ML Consults portfolio management service, and other fee-based services. Asset management fees increased 21% to $706 million due principally to growth in stock and bond funds. In 1993, revenues from ML Consults advanced 66% to $294 million as the total number of accounts grew 36% to 87,000. Other fee-based revenues were up 8% to $483 million due to increased revenues from mortgage servicing, insurance, and custodial fees for retirement accounts.

OTHER REVENUES

Other revenues increased 65% in 1994 to $471 million. Other revenues include investment gains and losses, transaction processing fees, and proxy activities.

In 1994, net realized investment gains related to merchant banking activities were $81 million, compared with $133 million of net investment losses a year ago. In certain instances, sales of merchant banking positions are subject to restrictions, limiting the Corporation's ability to dispose of these investments until required holding periods expire. In 1994, restrictions applicable to certain investments lapsed and market conditions changed, enabling the Corporation to dispose of certain merchant banking investments. Merchant banking positions are carried at the lower of cost or estimated net realizable value. Loss provisions related to these investments are established, as appropriate, to reduce the carrying value to estimated net realizable value. (See discussion of Non-Investment Grade Holdings and Highly Leveraged Transactions.) Revenues generated from transaction processing, proxy services, and other activities declined 7% in 1994 to $390 million.

In 1993, other revenues were up 1% to $285 million due primarily to higher fees generated from growth in home equity loan activity, partially offset by higher net investment losses related primarily to provisions for merchant banking investments.

NON-INTEREST EXPENSES

Non-interest expenses declined 3% in 1994 to $7.89 billion. Excluding the 1993 first quarter non-recurring lease charge of $103.0 million, non-interest expenses declined 2%.

Compensation and benefits, the largest expense, declined 6% to $4.95 billion as lower incentive and production-related Financial Consultant compensation was partially offset by increases in base wages, severance, and Financial Consultant up-front hiring bonuses. Incentive compensation decreased with lower profitability, while production-related compensation was down due to volume declines in certain products.

The Corporation regularly evaluates its staffing levels given business conditions. At year-end 1994, full-time personnel totaled 43,800 compared with 41,900 at year-end 1993. Hirings in 1994 consisted primarily of producers and selected support staff in private client and international business areas. The increase in personnel was concentrated in early 1994 with nearly 70% of the hirings occurring before July. In the second half of 1994, approximately 53% of the additional hirings were recent graduates, the result of the annual recruiting cycle. Selected reductions in personnel related to overall business contraction contributed to a charge for severance expense totaling $66 million in 1994. Compensation and benefits, as a percentage of net revenues, was 51.5% compared with 49.8% in 1993. The Corporation's ratio of support employees and sales assistants to producers increased to 1.46 to 1 in 1994, from 1.43 to 1 in 1993.

Occupancy costs declined 24% (7% excluding the non-recurring lease charge), benefiting from continued relocation of support staff to lower-cost facilities and reduced space requirements at the Headquarters facility. Communications and equipment rental expenses were 12% higher in 1994 due to increased use of market data, news, and statistical services. Depreciation and amortization expense rose 5% due primarily to the acquisition of technology-related equipment that is depreciated over shorter useful lives.

Advertising and market development expenses were down 1% with discretionary costs decreasing as business conditions became less favorable. Lower sales promotion costs and a reduction in advertising campaigns were partially offset by increased travel related to international business activities.

Professional fees increased 26% from a year ago, due primarily to the use of system and management consultants to upgrade technology and processing capabilities in trading, credit, and customer systems, as well as higher legal fees.

Brokerage, clearing, and exchange fees increased 20% from 1993 due to higher international equity volume and expanded risk management activities related to volatile global market conditions. Other expenses were up 1% due primarily to an increase in office supplies and postage costs.

In 1993, non-interest expenses increased 17% to $8.13 billion. Excluding the 1993 first quarter non-recurring lease charge, non-interest expenses rose 15%. Favorable markets, increased business volumes, and record profitability contributed to a 20% increase in compensation and benefits expense. Occupancy costs rose 20% as a result of the non-recurring lease charge (down 2% excluding the non-recurring lease charge). Communications and equipment rental expense increased 5% due to the expanded use of telephone, market data, and news services. Depreciation and amortization expense rose 10% due to replacement of technology-related equipment. Advertising and market development expenses rose 25% reflecting higher sales promotion costs, recognition programs, and business travel. Professional fees increased 13% due to increased use of system and management consultants, and higher employment agency fees. Brokerage, clearing, and exchange fees were up 1% as a result of increased trading volume. Other expenses rose 5% in 1993 principally as a result of additions to loss provisions related to litigation and claims, offset by a reduction in loss provisions related to specific business activities.

INCOME TAXES

The Corporation's 1994 income tax provision was $713 million and represented a 41.2% effective tax rate. In 1993 and 1992, income tax provisions were $1.03 billion and $669 million, respectively, representing effective tax rates of 42.5% in 1993 and 41.3% in 1992. The effective tax rate in 1994 decreased primarily as a result of lower state income taxes. In 1993, the effective tax rate was higher as legislation increased the Federal statutory tax rate from 34.0% to 35.0%.

The Corporation records deferred tax assets for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. To recognize these deferred tax assets, the Corporation anticipates future taxable income. The Corporation assessed its ability to realize its deferred tax assets primarily on a strong earnings history and the absence of negative evidence as discussed in SFAS No. 109, *Accounting for Income Taxes*. During the last 12 years, average pretax earnings were $788 million per year. Accordingly, the Corporation believes it is more likely than not that its deferred tax asset will be realized.

In 1992, the Corporation adopted SFAS No. 109. As a result of adopting this accounting pronouncement, the Corporation recorded a $17.8 million cumulative effect benefit in 1992. The cumulative effect adjustment recognizes the utilization of previously unrecorded state and local tax benefits. All available alternative minimum tax credits and net operating loss tax benefit carryforwards from prior years were utilized by the end of 1992.

STOCKHOLDERS' EQUITY

Stockholders' equity at December 30, 1994 increased 6% to $5.82 billion from $5.49 billion at year-end 1993. The increase in 1994 was principally the result of net earnings and the issuance of $425 million 9% Preferred Stock, Series A (see Stockholders' Equity in the Notes to Consolidated Financial Statements). These advances were primarily offset by an increase in treasury stock related to the Corporation's share repurchase program, common and preferred dividends declared by the Corporation, and a fair value adjustment related to SFAS No. 115, *Accounting for Investments in Certain Debt and Equity Securities*.

In 1994, the Corporation repurchased approximately 30 million common shares at an average price of $37.96 per share to meet share requirements under employee benefit plans, to make appropriate adjustments to the Corporation's capital structure, and for other general corporate purposes.

The Corporation granted a total of approximately 1.4 million shares of common stock during 1994 to certain employees under the Long-Term Incentive Compensation Plan and the Equity Capital Accumulation Plan.

In 1993, the Corporation adopted SFAS No. 115, which increased stockholders' equity by $21 million (see Accounting Changes in the Notes to Consolidated Financial Statements). In the 1993 fourth quarter, the Corporation's Board of Directors declared a two-for-one common stock split effected in the form of a 100% stock dividend. In the second quarter of 1993, stockholders of the Corporation approved an increase in the authorized number of common shares from 200 million to 500 million shares. In addition, 1,637,314 shares of common stock were issued in 1993 under certain employee benefit plans.

At December 30, 1994, total common shares outstanding, excluding the unallocated Employee Stock Ownership Plan ("ESOP") reversion common shares, amounted to 181.5 million, 11% lower than the 204.0 million shares outstanding at December 31, 1993. The decrease was principally attributable to common stock repurchases. Including unallocated ESOP reversion shares, total outstanding common shares were 187.9 million at the end of 1994. Total outstanding common shares, including unallocated ESOP reversion shares, and commitments for shares related to employee benefit plans (whether or not specific awards of such shares have been made) approximated 300.6 million at December 30, 1994. Subsequent to year-end, the Corporation amended the Incentive Equity Purchase Plan by reducing the number of shares authorized to zero. This amendment reduced committed amounts by approximately 24 million shares.

LIQUIDITY AND LIABILITY MANAGEMENT

The primary objective of the Corporation's funding policies is to assure liquidity at all times. To strengthen liquidity, the Corporation maintains a strong capital base, obtains committed, unsecured, revolving credit facilities (the "Credit Facilities"), issues term debt, concentrates debt issuance through Merrill Lynch & Co., Inc. (the "Parent"), and pursues expansion and diversification of funding sources.

There are three key elements to the Corporation's liquidity strategy. The first is to maintain alternative funding sources such that all debt obligations maturing within one year, including commercial paper and the current portion of term debt, can be funded when due without issuing new unsecured debt or liquidating any business assets. The most significant alternative funding sources are the proceeds from executing repurchase agreements ("repos") and obtaining secured bank loans, both principally employing unencumbered investment-grade marketable securities. The calculation of proceeds available from repos and secured bank loans takes into account both a conservative estimate of excess collateral required by secured lenders, and restrictions on upstreaming cash from regulated subsidiaries to the Parent. The ability to execute this secured funding is demonstrated by the Corporation's routine use of repo markets to finance inventory and by periodic tests of secured borrowing procedures with banks. Other alternative funding sources include liquidating cash equivalents, securitizing additional home equity and other mortgage loan assets, and drawing on Credit Facilities. At December 30, 1994, the Credit Facilities totaled $5.3 billion and have not been drawn upon.

As an additional measure, the Corporation regularly reviews the level and mix of its assets and liabilities to ascertain its ability to conduct core businesses beyond one year

without reliance on issuing new unsecured debt or drawing upon Credit Facilities. The composition of the Corporation's asset mix provides a great degree of flexibility in managing liquidity. The Corporation's liquidity position is enhanced since most of the Corporation's assets turn over frequently or are match-funded with a liability whose cash flow characteristics closely match those of the asset. At December 30, 1994, approximately 3% of the Corporation's assets, principally certain other investments, and fixed and other assets, were considered not readily marketable by management. The Corporation monitors the liquidity of assets, the quality of Credit Facilities, and the overall level of equity and term debt in assessing financial strength and capital adequacy at any point in time.

The second element of the Corporation's liquidity strategy is to concentrate all general purpose borrowings at the Parent level, except where tax regulations, time differences, or other business considerations make this impractical. The benefits of this strategy are: a) lower financing costs from the reduced risks of a diversified asset and business base; b) simplicity, control, and wider name recognition by banks, creditors, and rating agencies; and c) flexibility to meet varying funding requirements within subsidiaries.

The third element is to expand and diversify the Corporation's funding instruments and its investor and creditor base. The Corporation maintains strict concentration standards for short-term lenders, which include limits for any single investor. The Corporation's funding programs benefit from the ability to market commercial paper through its own sales force to a large, diversified customer base and the financial creativity of the Corporation's capital markets and private client operations. Commercial paper remains the Corporation's major source of short-term general purpose funding. Commercial paper outstanding totaled $14.8 billion at December 30, 1994 and $14.9 billion at December 31, 1993, which represented 9% and 10% of total assets at year-end 1994 and 1993, respectively.

Total term debt issuance in 1994 exceeded 1993 levels as the Corporation continued to be active in both domestic debt markets and Euro markets through public issues and private placements. Foreign currency denominations and interest rate indices were hedged, as required, to match the economic characteristics of the Corporation's assets. Outstanding term debt at December 30, 1994 grew to $14.9 billion from $13.5 billion at December 31, 1993.

At December 30, 1994, the Corporation's senior long-term debt was rated by seven recognized credit rating agencies, as follows:

Rating Agency	Rating
Duff & Phelps Credit Rating Co.	AA–
Fitch Investors Service, Inc.	AA
IBCA Ltd.	AA–
The Japan Bond Research Institute	AA
Moody's Investors Service, Inc.	A1
Standard & Poor's Ratings Group	A+
Thomson BankWatch, Inc.	AA

The Corporation issued $8.5 billion of long-term debt during 1994. During the same period, maturities and repurchases were $6.9 billion. In addition, approximately $1.9 billion of the Corporation's securities held by subsidiaries were sold and $2.2 billion were purchased. At December 30, 1994, $6.1 billion of term debt had maturity dates in 1995 and $8.8 billion of term debt had maturity dates beyond one year. The average maturity on all outstanding term debt was 3.0 years, compared with 2.9 years at year-end 1993. Approximately $30.5 billion of the Corporation's indebtedness at December 30, 1994 is considered senior indebtedness as defined under various indentures.

As part of the Corporation's overall liquidity program, its insurance subsidiaries regularly review the funding requirements of their contractual obligations for in-force, fixed-rate life insurance and annuity contracts and expected future acquisition and maintenance expenses for all contracts. The liquidity and duration of the fixed-rate asset and liability portfolios are closely monitored.

During the past few years, the Corporation's insurance subsidiaries have changed the mix of products offered to policyholders. Currently, variable life insurance and variable annuity products are actively marketed. These products do not subject the insurance subsidiaries to the interest rate, asset/liability matching, and credit risks attributable to fixed-rate products, thereby reducing the risk profile and liquidity demands on the insurance subsidiaries. The insurance subsidiaries maintain predominantly high quality, liquid investment portfolios to fund their various business activities. At December 30, 1994, approximately 81% of invested assets of insurance subsidiaries were considered liquid by management.

CAPITAL RESOURCES AND CAPITAL ADEQUACY

The Corporation remains one of the most highly capitalized institutions in the U.S. securities industry with an equity base of $5.82 billion at December 30, 1994, including $5.20 billion in common equity supplemented by $619 million in preferred stock. The Corporation's average leverage ratios, computed as the ratio of average month-end assets to average month-end stockholders' equity, were 32.0x and 27.4x for 1994 and 1993, respectively. The Corporation's leverage ratios at the end of 1994 and 1993 were 28.1x and 27.9x, respectively. During 1994, leverage ratios were affected by the adoption of Financial Accounting Standards Board Interpretation ("Interpretation") No. 39, *Offsetting of Amounts Related to Certain Contracts*, as modified by Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. The effect of these Interpretations increased assets by approximately $8.5 billion at December 30, 1994.

To compute the Corporation's average adjusted leverage ratio, resale agreements and securities borrowed transactions are subtracted from total assets. The average adjusted leverage ratios were 18.9x and 16.6x for 1994 and 1993, respectively. The Corporation's adjusted leverage ratios at the end of 1994 and 1993 were 16.9x and 17.5x, respectively.

The Corporation operates in many regulated businesses that require various minimum levels of capital to conduct business (see Regulatory Requirements and Dividend Restrictions in the Notes to Consolidated Financial Statements). The Corporation's broker-dealer, insurance, and futures commission merchant activities are subject to regulatory requirements which may restrict the free flow of funds to affiliates. Regulatory approval is required for certain transactions, including payment of dividends in excess of certain established levels, making affiliated investments, and entering into management and service agreements with affiliated companies.

The Corporation's overall capital needs are continually reviewed to ensure that its capital base can support the estimated risks of its businesses as well as the regulatory and legal capital requirements of subsidiaries. Based upon these analyses, management believes that the Corporation's equity base is adequate.

AND LIABILITIES

The Corporation manages its balance sheet and risk limits according to market conditions and business needs, subject to profitability and control of risk. Asset and liability levels are primarily determined by order flow and fluctuate daily, sometimes significantly, depending upon volume and demand. The liquidity and maturity characteristics of assets and liabilities are monitored continually. The Corporation monitors and manages the change of its balance sheet using point-in-time average daily balances. Average daily balances are derived from the Corporation's management information system which summarizes balances on a settlement date basis. Financial statement balances, as required under generally accepted accounting principles, are recorded on a trade date basis. The discussion that follows compares the changes in settlement date average daily balances, not year-end balances. The reasons underlying changes in average balances, however, are similar to those underlying changes in year-end balances.

The increase in average balance sheet levels in 1994 was attributable to many factors, including the effect of Interpretation No. 39, expanded match-funding of repurchase and resale agreements, and increased trading activity, particularly in the 1994 first quarter. In 1994, average daily assets were $182 billion, up 29% from $141 billion in 1993. Average daily liabilities in 1994 rose 30% to $177 billion from $137 billion in 1993. Excluding the effect of Interpretation No. 39, average assets and liabilities increased by approximately $28 billion, or 20%, in 1994. Interpretation No. 39 primarily affected balances related to contractual agreements and resale and repurchase agreements. Although average asset and liability levels have increased year over year, these balances have each declined 4% from first quarter 1994 peak levels. The decrease corresponds with lower levels of business activity after the 1994 first quarter.

The major components in the growth of average daily assets and liabilities are summarized as follows:

	Increase in Average Daily Assets	Percent Increase
(In Millions)		
Resale agreements	$17,856	48%
Trading assets	17,217	37
Securities borrowed	2,489	11
Customer receivables	2,397	21

	Increase in Average Daily Liabilities	Percent Increase
Repurchase agreements	$20,345	39%
Trading liabilities	12,393	56
Commercial paper and other short-term borrowings	3,142	14
Long-term borrowings	2,941	23

In managing its balance sheet, the Corporation strives to match-fund its interest-earning assets with interest-bearing liabilities having similar maturities. The Corporation match-funds its repurchase agreements/resale agreements and its securities borrowed/securities loaned business, for example, earning an interest spread on these transactions. Repurchase and resale agreements rose during 1994 as a result of an increase in match-funded transactions involving foreign securities and an increase in collateralized lending activities to facilitate client demand.

In 1994, inventory levels were up due to the effect of Interpretation No. 39 and increases in trading activity. On-balance-sheet hedges included in trading liabilities also advanced due, in part, to increased market volatility during 1994. The Corporation uses hedges principally to reduce risk in connection with its trading activities. Securities borrowed increased primarily to facilitate deliveries to customers. Customer receivables also advanced as trading volume, on average, was higher.

The Corporation's assets, based on liquidity and maturity characteristics, are funded through diversified sources which include repurchase agreements, commercial paper and other short-term borrowings, long-term borrowings, and equity.

NON-INVESTMENT GRADE HOLDINGS AND HIGHLY LEVERAGED TRANSACTIONS

In the normal course of business, the Corporation underwrites, trades, and holds non-investment grade securities in connection with its investment banking, market-making, and derivative structuring activities. During the past three years, the Corporation increased its non-investment grade trading inventories to satisfy client demand for higher-yielding investments, including emerging market and other international securities.

Non-investment grade securities have been defined as debt and preferred equity securities rated as BB + or lower, or equivalent ratings by recognized credit rating agencies, certain sovereign debt in emerging markets, amounts due under various derivative contracts from non-investment grade counterparties, and non-rated securities which, in the opinion of management, are non-investment grade. At December 30, 1994, long and short non-investment grade inventories accounted for 4.3% of aggregate consolidated trading inventories, compared with 4.6% at year-end 1993 and 4.2% at year-end 1992. Non-investment grade trading inventories are carried at fair value.

The Corporation provides financing and advisory services to, and invests in, companies entering into leveraged transactions. Examples of leveraged transactions may include leveraged buyouts, recapitalizations, and mergers and acquisitions. The Corporation provides extensions of credit to leveraged companies in the form of senior and subordinated debt, as well as bridge financing on a select and limited basis. In addition, the Corporation syndicates loans for non-investment grade counterparties or counterparties engaged in highly leveraged transactions. Loans to highly leveraged companies are carried at unpaid principal balances less a reserve for estimated losses. The allowance for loan losses is estimated based on a review of each loan, and considerations of economic, market, and credit conditions. At year-end 1994, 1993, and 1992, no bridge loans were outstanding.

The Corporation holds non-investment grade securities, direct equity investments in leveraged companies, and interests in partnerships that invest in leveraged transactions. Equity investments in privately held companies for which sale is restricted by government or contractual requirements are carried at the lower of cost or estimated net realizable value. Prior to July 1, 1994, the Corporation had a co-investment arrangement to enter into direct equity investments. The Corporation also has committed to participate in limited partnerships that invest in leveraged transactions. Future commitments to participate in limited partnerships and other direct equity investments will be determined on a select and limited basis.

The Corporation's involvement in non-investment grade securities and highly leveraged transactions is subject to risks related to the creditworthiness of the issuers and the liquidity of the market for such securities, in addition to the usual risks associated with investing in, financing, underwriting, and trading investment grade instruments. The Corporation recognizes such risks and, whenever possible, employs strategies to mitigate exposures.

The specific components and overall level of non-investment grade and highly leveraged positions may vary significantly from period to period as a result of inventory turnover, investment sales, and asset redeployment. The Corporation continually monitors credit risk by individual issuer and industry concentration. In addition, valuation policies provide for recognition of market liquidity, as well as the trading pattern of specific securities. In certain instances, the Corporation will hedge the exposure associated with owning a high-yield or non-investment grade position by selling short the related equity security. The Corporation also uses certain non-investment grade trading inventories, principally non-U.S. governments and agencies securities, to hedge the exposure arising from structured derivative transactions. Collateral, consisting principally of U.S. Government securities, may be obtained to reduce credit risk related to these transactions.

The Corporation's insurance subsidiaries hold non-investment grade securities to support fixed-rate liabilities. As a percentage of total insurance investments, non-investment grade securities were 5.5% at year-end 1994, compared with 5.8% at year-end 1993 and 4.5% at year-end 1992. Non-investment grade securities of insurance subsidiaries are classified as available-for-sale and are carried at fair value. Prior to year-end 1993, investments of insurance subsidiaries were carried at amortized cost.

A summary of the Corporation's non-investment grade holdings and highly leveraged transactions at year-end 1994, 1993, and 1992 follows:

(In Millions)	1994	1993	1992
Non-investment grade trading assets	$3,309	$3,129	$1,723
Non-investment grade trading liabilities	456	214	209
Non-investment grade investments of insurance subsidiaries	314	458	409
Loans (net of allowance for loan losses) *(a)*	257	435	822
Equity investments *(b)*	289	276	360
Partnership interests	93	92	120
Additional commitments to invest in partnerships	$ 80	$ 19	$ 27
Additional co-investment commitments	–	49	89
Unutilized revolving lines of credit and other lending commitments	50	49	75

(a) Represented outstanding loans to 35, 42, and 50 medium-sized companies at year-end 1994, 1993, and 1992, respectively.

(b) Invested in 80, 82, and 103 enterprises at year-end 1994, 1993, and 1992, respectively.

At December 30, 1994, the largest non-investment grade concentration consisted of various issues of a South American sovereign totaling $235 million, of which $60 million represented on-balance-sheet hedges for off-balance-sheet instruments. No one industry sector accounted for more than 21% of total non-investment grade positions. Included in the table above are debt and equity securities of issuers in various stages of bankruptcy proceedings or in default. At December 30, 1994, the carrying value of these securities totaled $292 million, of which 71% resulted from the Corporation's market-making activities in such securities.

CASH FLOWS

The Statements of Consolidated Cash Flows classifies the flow of cash into three broad activities: operating, investing, and financing. The Corporation's net cash flows are principally associated with operating and financing activities, which

support the Corporation's trading, customer, and investment banking activities. Cash flows from investing activities are primarily related to the Corporation's insurance business.

The Corporation's cash and cash equivalents totaled $2.3 billion at December 30, 1994, an increase of $0.5 billion and $1.1 billion, respectively, from the end of 1993 and 1992.

Cash flows from operating activities in 1994 totaled $7.4 billion. Cash was provided from an increase in trading liabilities totaling $5.6 billion, primarily related to hedge activities, and a decrease in trading assets consistent with business levels, totaling $6.6 billion. Trading assets and trading liabilities exclude the effect of Interpretation No. 39. Net earnings adjusted for noncash items also provided cash of $2.4 billion. Cash used for remaining operating assets and liabilities totaled $7.2 billion and related primarily to securities borrowed transactions, insurance liabilities, and customer-related activity.

Cash flows from investing activities in 1994 totaled $0.3 billion. Cash of $1.1 billion, principally related to net proceeds from sales and maturities of investment securities, was provided from investing activities. Cash used to acquire property, leasehold improvements, equipment, and other assets totaled $0.8 billion.

The Corporation's financing activities used cash of $7.2 billion in 1994. Cash of $12.1 billion was used for payments under repurchase agreements, net of resale agreements, repurchases of common stock, and stock dividend payments. Offsetting these amounts was cash totaling $4.9 billion provided by proceeds from commercial paper and issuance of long-term borrowings and preferred stock.

In 1993, cash and cash equivalents increased $0.5 billion to $1.8 billion. Cash used for operating activities totaled $17.1 billion, cash provided by investing activities totaled $0.4 billion, and cash provided by financing activities totaled $17.2 billion. In 1993, the decrease in cash from operating activities reflected net increases in operating assets consistent with an increase in the level of business activity. Cash provided from investing activities represented a reduction in insurance investments offset by net purchases of marketable investment securities, property, leasehold improvements, and equipment, and other assets. Cash provided from financing activities was used to fund the growth in the Corporation's balance sheet to accommodate business levels. Cash was provided from repurchase agreements, net of resale agreements, commercial paper, and other short- and long-term borrowings. Financing activities used cash for share repurchases and stock dividends.

Cash and cash equivalents increased $0.2 billion to $1.3 billion in 1992. Cash used for operating activities totaled $5.2 billion, while financing activities provided cash of $5.4 billion. Cash from investing activities was virtually unchanged.

RECENT DEVELOPMENTS

New Accounting Pronouncements

In May 1993, the Financial Accounting Standards Board ("FASB") issued SFAS No. 114, *Accounting by Creditors for Impairment of a Loan*. SFAS No. 114, effective for fiscal years beginning after December 15, 1994, establishes accounting standards for creditors to measure the impairment of certain loans.

In October 1994, the FASB issued SFAS No. 118, *Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures*. SFAS No. 118 amends SFAS No. 114 to allow creditors to use existing methods for recognizing interest income on an impaired loan, rather than the method originally required by SFAS No. 114.

The Corporation has evaluated the impact of these pronouncements on its financial statements as of December 30, 1994 and has determined that the effect is not material.

Business

As disclosed in the Corporation's Current Report on Form 8-K dated January 12, 1995 filed pursuant to the Securities Exchange Act of 1934, certain actions have been filed against the Corporation by Orange County, California and The Orange County Investment Pools as well as by others in connection with the Corporation's business activities with Orange County or from the purchase of debt instruments issued by Orange County that were underwritten by the Corporation's subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated. The information set forth under the caption "Litigation" in the Notes to Consolidated Financial Statements is incorporated by reference herein. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these actions will not have a material adverse effect on the financial condition or the results of operations of the Corporation as set forth in the consolidated financial statements contained herein. The Corporation does not believe that the Orange County matter will have a material impact on its business activities.

GLOBAL OPERATIONS

The Corporation has continued to strategically expand its international business activities in 1994 to capitalize on the further globalization of financial markets, the increase in cross-border transactions, and the demand for global investments. The Corporation's international activities are organized as follows: Europe and the Middle East, Latin America and Canada, and the Asia Pacific region which includes Japan and Australia. In 1994, the Corporation's international businesses were influenced by market conditions comparable to those that negatively affected the Corporation's U.S. operating results, including rising interest rates, volatile world currency and securities markets, and investor sentiment. Accordingly, international results in each of the Corporation's primary geographic regions decreased from 1993 levels. (See Industry and Global Operations in the Notes to Consolidated Financial Statements.)

Europe and the Middle East

The Corporation operates in Europe and the Middle East as a dealer in fixed-income securities, swaps and other derivatives, foreign exchange, equities, commodities, and Eurobonds. The Corporation also provides investment banking, private banking, and research services.

The Corporation continued to expand its businesses in Europe and the Middle East. In 1994, the Corporation's capital market activities spread to the emerging markets of Eastern Europe, Russia, Portugal, Greece, and South Africa. These markets will require additional capital and investment, providing financing opportunities for the Corporation. The Corporation has also expanded its trading and banking activities in Western Europe through memberships on major European exchanges such as the London, Frankfurt, and Zurich stock exchanges, and the Paris and German futures exchanges. Moreover, the Corporation became a gilt-edged market-maker in the United Kingdom and established a French government bond trading presence in Paris during the year.

In 1994, total revenues for Europe and the Middle East were $3.5 billion, up 11% from 1993. Net revenues totaled $1.1 billion, down 16% from 1993. The region's earnings before income taxes were $176 million for 1994, compared with $481 million in 1993, a decrease of 63%.

Trading results for the region declined from 1993. Fixed-income securities were negatively affected by rising interest rates. Losses were recorded in structured money market products and equity-linked warrants. Partially offsetting these declines were higher revenues from commodities trading activities. Investment banking revenues were virtually unchanged although volume in sovereign and equity issuances increased.

The decrease in earnings before income taxes is attributable to higher financing and other trading-related costs and an increase in compensation and benefits expense. The number of full-time employees increased from 2,449 at year-end 1993 to 2,857 at the end of 1994 to support business expansion.

In 1993, total revenues were $3.1 billion, up 67% from $1.9 billion in 1992, while net revenues were $1.4 billion, up 42% from $953 million in 1992. Earnings before income taxes were $481 million in 1993 compared with $181 million in 1992, an increase of 166%.

In 1993, this region benefited from market volatility in Europe and falling interest rates. As a result, corporate debt, government bonds, and swaps and other derivatives trading revenues increased. Customer lending revenues, portfolio management fees, and commissions also rose during the period. In 1993, the Corporation increased staffing by 14% to support strategic expansion in this region.

Canada and Latin America

In Canada, the Corporation provides investment banking and research, securities and commodities brokerage, and market-making services, particularly in corporate and government bonds and money market instruments. In Latin America, the Corporation provides international banking, brokerage, trust, and investment banking services. Included in the Latin America region are certain offices located in the U.S. which primarily service Latin American clients. Latin America has been a region of growth for the Corporation. The Corporation has expanded its presence in this region primarily through increased private client, investment banking, and equity trading activities.

Total revenues for Canada and Latin America increased to $617 million for 1994, up 17% from $526 million in 1993, while net revenues decreased 12% to $333 million in 1994. Earnings before income taxes were $137 million, down 2% from 1993. Investment banking activities in Latin America were lower than a year ago due to market and political uncertainties in the region. The devaluation of the Mexican peso affected securities valuations and investor demand, particularly in the 1994 fourth quarter. This trend continued into the 1995 first quarter. The region benefited from the continued growth of matched-book activity and fixed-income trading in Canada, as well as equity sales to private banking clients in Latin America. Staffing increased from 751 at year-end 1993 to 834 at December 30, 1994. The staffing increase was primarily in Latin America, which continued to expand its range of products and client services. Certain of these hires represented the foundation for an expanded equity trading operation, which commenced in Brazil during early 1995.

In 1993, total revenues were $526 million, up 39% from $378 million in 1992. Net revenues were $377 million in 1993, up 46% from $259 million in 1992. Earnings before income taxes were $139 million versus $89 million in 1992, a 56% increase. Most of the growth was in principal transactions revenues, primarily Canadian government bonds, as well as increases in commission revenues related to private banking clients in Latin America.

Staffing increased to 751 in 1993, compared with 663 in 1992 to facilitate expansion.

Asia Pacific

In the Asia Pacific region, the Corporation has a variety of operating centers serving a broad retail and institutional client base. In Japan and China, the focus is principally on institutional business opportunities, while in other locations, such as Taiwan, Korea, Hong Kong, Singapore, and Australia, both retail and institutional businesses are conducted. The Corporation has securities and futures exchange memberships in the major financial centers and has increased its trading and product capacity in Tokyo, Hong Kong, and Singapore. Moreover, the Corporation recently expanded its presence in India, Indonesia, and Thailand through strategic investments and joint ventures.

Total revenues for the Asia Pacific region in 1994 were $963 million, up 10% from 1993. Net revenues and earnings before income taxes were $554 million and $75 million, down 19% and 61% from 1993, respectively. Trading results in this region were mixed, with higher revenues from non-dollar swaps, equity derivatives, and Australian debt offset by lower revenues from Japanese Government Bonds ("JGB"). The decline in JGB trading revenues was attributable to rising interest rates which also affected net interest profit in 1994.

In 1994, the number of full-time employees increased 17% to 1,383. This strategic growth increased expense levels during 1994 contributing to lower earnings before income taxes.

Total revenues for 1993 were $879 million versus $374 million in 1992. Net revenues were $683 million in 1993

compared with $309 million in 1992. Earnings before income taxes were $191 million in 1993 versus a $3 million loss in 1992. Higher revenues in 1993, primarily in equity arbitrage and JGB and Australian debt trading, contributed to these improved results.

DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation, as a dealer, trades derivatives and provides clients with customized products. These transactions allow clients to manage their exposure to interest rate, currency, and security and commodity price risks. The Corporation also uses derivative financial instruments to manage and hedge its own interest rate, currency, and other risks related to its proprietary trading strategies, client transactions, and non-trading activities.

SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments,* defines derivative financial instruments as futures, forwards, swaps, or option contracts, or other financial instruments with similar characteristics.

The definition excludes all on-balance-sheet receivables and payables, including those that "derive" their values or contractually required cash flows from the price of some other security or index, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments. Derivative financial instruments, unlike non-derivative (or cash) financial instruments, have both on- and off-balance-sheet implications, depending upon the nature of the contract. Forward contracts, for example, are treated as off-balance-sheet in terms of notional amounts, with only unrealized gains and losses included in trading assets or liabilities. Derivatives can be traded on an exchange or negotiated in the over-the-counter markets. Futures contracts and certain options are examples of exchange-listed derivatives traded or issued by the Corporation. Swap contracts, including swap options, caps, collars, and floors, forward contracts, and certain equity derivatives are examples of over-the-counter derivatives traded, issued, and used by the Corporation.

The Corporation conducts derivative activities through a number of wholly owned subsidiaries as part of its client-driven and proprietary business transactions. Merrill Lynch Capital Services, Inc. ("MLCS") is the Corporation's principal swaps dealer. Merrill Lynch Capital Markets PLC ("MLCM") is the primary equity derivatives dealer of the Corporation. Merrill Lynch Derivative Products, Inc., a "AAA" rated entity, is the Corporation's swap subsidiary which provides credit intermediation for interest rate and currency swaps, options, and similar transactions between highly rated counterparties and MLCS. In connection with these derivative activities, certain of these subsidiaries purchase and sell interest-bearing and equity securities for hedging purposes.

The Corporation, directly or through its subsidiaries, enters into derivatives transactions to hedge certain trading positions, including other derivatives. As an end-user, the Corporation also hedges its fixed-rate and foreign currency-denominated debt issuances by entering into variable interest rate swaps and foreign currency agreements with MLCS. MLCS then enters into other contracts with third parties as part of the Corporation's trading and risk management strategies. The Corporation also hedges equity-related exposures embedded in certain of its debt instruments with equity derivatives transacted primarily through MLCM.

Derivatives facilitate risk transfer and enhance liquidity in the marketplace. For issuers, derivatives provide cost-effective funding alternatives, while for investors, derivatives provide alternative investment options and the ability to hedge risk. Market participants include dealers, such as banks and other financial institutions, and end-users such as corporations, governments, pension funds, government agencies, and other institutions.

Increased market participation and competition has helped to increase liquidity in conventional derivatives, such as interest rate swaps. Widespread acceptance has also contributed to the development of more complex products structured for specific clients. Rapid growth, complexity, and highly publicized losses have contributed to a perception that these products possess additional risk to users and to financial markets. Although different in form, both derivative and non-derivative financial instruments are subject to market, credit, operational, and other similar risks. Credit considerations, for example, exist for a corporate bond and an interest rate swap. In addition, both of these instruments are sensitive to market risk due to movements in interest rates which affect their respective pricing. The risks inherent in both types of instruments need to be managed in a manner consistent with a company's overall risk management policies.

Management Review

Management plays an important role in monitoring the Corporation's derivative activities by setting market risk and credit limits, reviewing new products, and establishing accounting, credit, and risk policies. Similar to other financial products, presentations on derivatives are made to senior management and the Board of Directors. These presentations include reviews of pricing models and may address current business issues and industry developments and provide details of other specific issues that are important to the Corporation in managing its derivatives business.

Accounting and Valuation

Notional amounts of derivative contracts provide a common basis for compiling outstanding transactions. Notional amounts are not recorded on the balance sheet and do not represent a measure of the Corporation's risk. Derivatives used in a dealer capacity and to hedge other trading positions are marked-to-market. The unrealized gain or loss is recorded in trading assets or liabilities on the Consolidated Balance Sheets with the related income or loss reported in principal transactions revenues. Derivatives used to hedge the issuance of borrowings by the Corporation are generally recorded on an accrual basis. Interest is accrued into income or expense over the life of the contract, which generally matches the maturity of the related debt issue.

The fair value of a derivative contract represents the amount the Corporation would have to pay a third party to assume its obligations under the contract or the amount a third party would pay to receive the Corporation's benefits under the contract. The Corporation's derivative transactions are generally marked-to-market by pricing models based on the present value of future cash flows using mid-market valuations with adjustments, as required, for credit, liquidity, and ongoing costs. These adjustments are integral components of the mark-to-market process.

Certain products may require additional market valuation adjustments. New, complex products, where no established two-way market exists, may create a need for liquidity adjustments. Modeling a complex product involves multiple variables and assumptions, the precision of which will evolve over time. The Corporation does not recognize the market value of these contracts determined solely by the pricing model during the early stages of a product's life. Due to limited markets for certain new, complex products, the pricing model may not have the precision associated with a model for an existing product. As these products develop, pricing models will be refined and hedging strategies modified, based on experience, to more closely correlate the market movement of these instruments.

Further valuation adjustments are recorded for significant derivative product positions. These adjustments acknowledge the difficulty in disposing of any large trading position in a short time period.

Most of the Corporation's derivative products are relatively short-term in nature. At year-end 1994, the weighted average maturity of the Corporation's derivative contracts, based on notional or contractual amounts, was 2.29 years, compared with 2.62 years at year-end 1993. Administrative costs are incurred to service periodic cash streams and maintain hedges over the life of the contract. A portion of income related to longer-term contracts is recognized as the costs related to these contracts are incurred.

Sources of derivative revenues and their related components are regularly reviewed by product, with profitability measured net of related hedging activities.

The Corporation has an independent Global Risk Management Group which develops pricing and risk management models to measure market risk. (See Risk Management discussion.)

Operational risks for derivative instruments require ongoing review. These instruments reset periodically based on variable interest rates, amortizing principals, or variations in other factors. The Corporation ensures that periodic payments/receipts on these instruments are based on appropriate variables and that mark-to-market valuations reflect the most current data.

Credit

The Corporation actively manages its credit risk for derivative activities. The Credit Division ("Corporate Credit") is responsible for establishing client limits and collateral requirements and for monitoring credit exposures. Corporate Credit works with the business units to develop and refine credit risk measurement models, analyze potential credit exposures for complex transactions, and establish credit enhancement provisions. Credit enhancements protect the Corporation against counterparty credit difficulties. Such provisions generally require counterparties to post additional collateral if the counterparty credit rating is downgraded, or if certain key ratios or covenants are not met.

The notional or contractual values of derivative transactions do not represent exposure to credit risk. Credit risk represents the amount of accounting loss that the Corporation would incur if a counterparty failed to perform its obligations under contractual terms and the collateral held, if any, was deemed worthless. The Corporation, however, requires collateral from its counterparties to mitigate credit risk, when appropriate. From an economic standpoint, credit risk is evaluated net of related collateral. Credit exposures are analyzed to assess current and potential credit risk. Current credit exposure represents the replacement cost of those contracts in a gain position, while potential credit exposures are based on estimates of future replacement costs over the remaining life of the contract. Credit exposure considerations are embedded in the mark-to-market process.

Whenever possible, the Corporation executes the International Swaps and Derivatives Association, Inc. master agreement, or its equivalent, which contains netting provisions ("master netting agreements"). Master netting agreements help reduce overall credit exposure to counterparties. Master netting agreements provide, in certain instances, protection in bankruptcy and may enable receivables and payables with the same counterparty to be presented net on the Consolidated Balance Sheets. This provides for a more meaningful balance sheet presentation of credit exposure. Obtaining executed master netting agreements, however, remains a problem for the industry. Often several months will elapse before a master netting agreement is executed. The industry is actively trying to resolve this issue and determine whether such agreements provide bankruptcy protection across all jurisdictions.

Derivative credit exposures are aggregated with credit exposures related to non-derivative transactions to assess the total exposure to each counterparty and compliance with country, industry, and product limits. Specific reserves may be required for exposures to weaker counterparties, as appropriate, and are reviewed as part of the Corporation's Reserve Committee process.

RISK MANAGEMENT

The Corporation operates in dynamic businesses that are subject to many risks that are continually monitored and evaluated. The Corporation's management has developed corporate governance policies and procedures that require specific areas and units to assist in the identification, assessment, and control of these risks. The Corporation's independent Global Risk Management Group ("Risk Management") is primarily responsible for monitoring market exposure, trading limits, and concentration levels (see Market Risk below). Credit risk is monitored primarily by Corporate

Credit in conjunction with business unit personnel (see Credit Risk below). Other units, including Finance, Corporate Audit, Operations, and Law and Compliance ("Units"), perform oversight reviews, each critical to managing risk.

In addition to independent risk management responsibilities, senior management from these Units takes an active role in the oversight of the risk management process through, among other things, the Reserve Committee of Senior Management ("Reserve Committee"). The Reserve Committee monitors valuation and certain other risks associated with assets and liabilities. The Corporation establishes reserves in the Consolidated Balance Sheets for existing conditions, events, or circumstances that may reduce the carrying value of an asset or incur a liability. The Reserve Committee, chaired by the Chief Financial Officer, reviews and approves firmwide reserve levels, as well as reserve methodologies. The Reserve Committee meets monthly to review current market conditions and act on specific issues brought to its attention by Finance, Corporate Credit, Risk Management, and business unit personnel.

The Corporation's reserves take into account management's judgment and are generally recorded based on (i) specific identification of risks and exposures, (ii) formulas, (iii) aging, concentration, and liquidity analyses, or (iv) combinations of these three methods.

Finance personnel, who report to the Chief Financial Officer, work closely with business managers to establish appropriate levels of reserves commensurate with business risks and activities. Reserves may be established as a result of changes in counterparty credit rating or status, market volatility, the liquidity of a product in a particular market, significant product concentration, or the age of an inventory position. Trading inventories are monitored for aging and concentration levels in specific issues and issuers.

Finance personnel independently review the pricing of trading inventories and contractual arrangements, as well as monitor other asset and liability valuations. Any specific issues requiring action are brought to the attention of trading management and, as appropriate, the Reserve Committee.

Corporate Audit, which reports to the Audit and Finance Committee of the Board of Directors, provides management with an independent assessment of the Corporation's operations and control environment through reviews of business and operational areas.

Within the Law and Compliance Division, Compliance establishes procedures and policies encompassing conduct, ethics, and business practices. The Corporation also maintains policies governing external regulatory requirements. Law and Compliance conducts education programs, monitors the Corporation's businesses, evaluates supervisory procedures, and recommends internal disciplinary action when necessary. The Corporation's training and awareness programs emphasize protection of clients' interests and preservation of the Corporation's integrity. Law and Compliance reports to the Vice Chairman and General Counsel.

Legal counsel within the organization are responsible for establishing reserves for potential litigation exposures based on specific reviews of cases or claims and consultations with outside counsel. The Corporation evaluates potential claims and assesses the likelihood of loss. Other loss contingencies are evaluated individually with reserves estimated based on the Corporation's assessment of probable loss exposure.

Market Risk

The Corporation incurs market risk primarily in connection with its trading activities. Disclosing methods for assessing and managing risk provide useful information on market risk exposures. Disclosures of derivatives alone, however, do not provide users of financial statements with a complete analysis of market risk. Derivative and cash financial instruments are subject to similar market and credit risks and are used together as part of trading and risk management strategies.

Market risk affects trading inventory values through changes in interest rates, credit spreads, equity, commodity, and currency prices, liquidity, and market volatility. The Corporation's trading activities are primarily client order flow driven rather than proprietary, with hedging transactions executed when appropriate. This strategy helps reduce market risk and volatility in principal transactions revenues.

Risk Management monitors the Corporation's exposure to potential losses in the value of its trading inventories due to adverse market movements. Risk Management is headed by a Senior Vice President, who is a member of the Executive Management Committee and reports directly to the President and Chief Operating Officer. Risk Management sets and monitors all trading limits, actively monitors trading and inventory exposures, approves new products in conjunction with the Corporation's new product review process, and has the authority to require changes in limits and specific trading desk exposures or to veto proposed transactions.

Risk Management is organized along product lines with independent professionals responsible for maintaining daily contact with specific trading areas. Trading systems and complementary risk monitoring systems allow these professionals to track established limit levels and exposures. Certain classes of transactions, including new financial products, proposed equity, emerging market, and high-yield underwritings, and bridge loans are subject to prior approval from Risk Management.

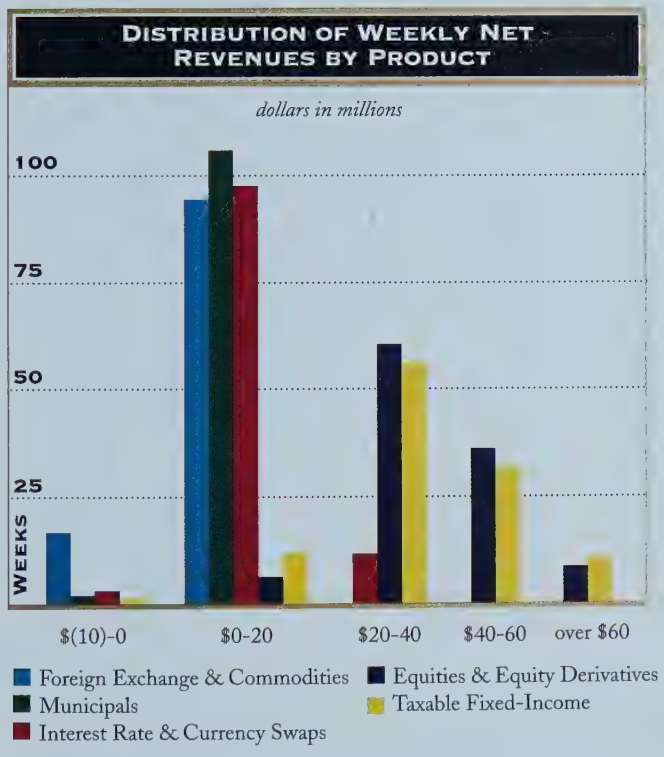
Trading limits are customized for each product. Existing trading positions are regularly compared with limits established by Risk Management. In addition, individual product areas have established more specific trading limits. Risk Management information systems monitor compliance with trading limits.

Trading systems are designed to assist traders in mitigating market and other risks prevalent in trading. Risk Management also has access to trading systems to allow for monitoring of positions and for performing computerized analytics on various market situations and conditions.

Risk Management uses an analytical technique known as stress simulations to measure and monitor exposure to market risk across all trading areas. Stress simulations estimate gains or losses each trading area could experience under both moderate and severe market movements.

Each simulation considers a specific change in interest rates, credit spreads, equity prices, foreign exchange rates, commodity prices, or volatilities, holding all other variables constant. Each trading area provides Risk Management with daily information on the expected gain or loss from these different stress scenarios. Based on these simulations, market risks can be monitored firmwide and portfolios rebalanced, as necessary.

Stress simulations provide hypothetical results under different market scenarios. The Corporation, however, views actual results as the best indicator of risk management performance. Analyzing actual net product revenues over time best illustrates the Corporation's tolerance for risk and the effectiveness of its risk management strategies. The nature of the Corporation's trading-related activities, principally client order flow, combined with its risk management strategies, helps reduce volatility in net product revenues. A distribution of weekly net product revenues (primarily principal transactions revenues, net interest, and selling concessions) for the last two years prior to the balance sheet date is presented in the graph below.



Credit Risk

Credit risk, the risk that a counterparty will fail to perform under its contractual commitments, is monitored primarily by Corporate Credit in conjunction with business unit personnel. Corporate Credit is headed by a Senior Vice President who reports directly to the Executive Vice President responsible for Corporate Strategy, Credit, and Research.

Corporate Credit is centralized and organized geographically, and within each region, along industry lines. Credit officers perform credit analysis, set credit limits by country and by counterparty, approve specific transactions, recommend credit reserves, manage credit exposures, and participate in the new product review process. Credit analysis, in many cases, is enhanced by due diligence meetings with counterparties. Many types of transactions, including most derivatives, are reviewed and subject to prior approval from Corporate Credit.

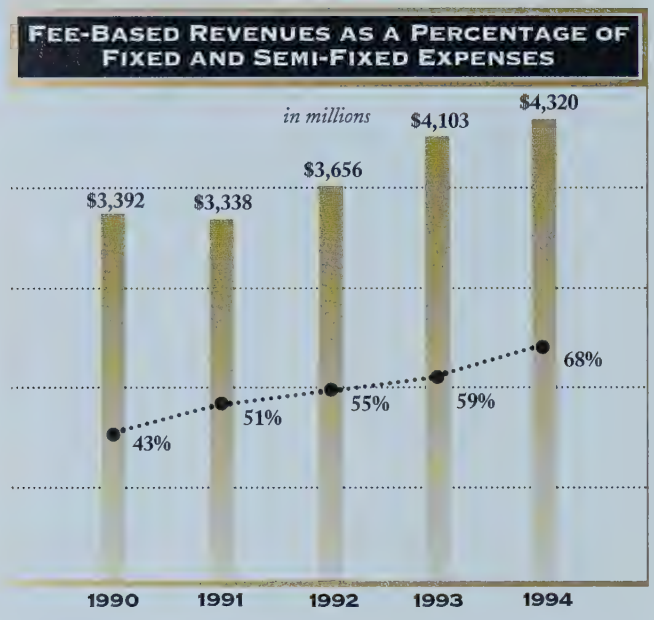
Within Corporate Credit, prescribed levels of authority have been established for approval of standard transactions. Required authority levels are governed by the counterparty's credit quality, as well as the maturity and potential risk of the transaction. Transactions which exceed prescribed levels must be approved by the Credit Committee, which is composed of several Directors of Credit and the Chief Credit Officer.

The credit system tracks information from automated and manual sources. This system aggregates credit exposure with each counterparty for various legal entities and maintains overall counterparty limits, specific product limits, and identifies limit review dates by counterparty. Detailed information on firmwide inventory positions and transactions executed, including current and potential credit exposure, is updated frequently and compared with limits. Collateral, which reduces the Corporation's credit exposure, is obtained as needed and tracked on the credit system. The system enables Corporate Credit, in conjunction with the business units, to monitor counterparty, product, industry, country, and credit quality concentrations.

Corporate Credit also monitors credit exposures related to the Corporation's loan services, including mortgages and home equity lines of credit, customer margin accounts, extensions of credit to high-net-worth individuals, and working capital facilities to small businesses, as well as merchant banking-related activities from prior periods. Reserves are estimated based on specific identification of exposures, formulas, and aging analyses.

Concentration Risk

Concentration risk, the risk that the Corporation's businesses will be dependent upon a single source of revenue, product, or market, is periodically reviewed as part of the Corporation's ongoing strategic and business planning process. In recent years, the Corporation has diversified its revenue sources to ensure that it is less dependent on any single financial product, customer base, or market to generate revenues.



Fee-based revenues include principally asset management and portfolio service fees and net margin interest.

Operational Risk

Operational risk focuses on the Corporation's ability to accumulate, process, and communicate information necessary to conduct business in a global market environment. These risks are monitored on both a local and centralized basis. Central to management of its operational risk, the Corporation maintains backup facilities worldwide. Information systems provide operational risk assessments on transactions in major markets. This technology allows the Corporation to promptly respond to changing market conditions worldwide. As required, systems and equipment are updated for changes in technology. This enables the Corporation to compete effectively in the dynamic financial services industry. Exception reports are also used to manage operational risk, highlight reconciliation issues, and enable the Corporation to identify instances where additional collateral is required. These reports also help identify potential business risk exposures and promote compliance with both internal management policies and regulatory requirements. Operations personnel provide support and control for trading, clearance, and settlement activities, and perform custodial functions for customer and proprietary assets. Operations personnel who are responsible for entering trades report to an operations or business manager, not to the traders.

Reserves for operational errors are established based on the nature of the transaction and specific identification of exposure. Many of these reserves are based on an aging analysis. Reserves on dividend and interest receivables, for example, gradually accrete to 100% over specified time frames in accordance with internal guidelines. Other operational exposures related to processing errors are analyzed for potential reserves on a case-by-case basis.

STATEMENTS OF CONSOLIDATED EARNINGS

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1994 *(52 Weeks)*	1993 *(53 Weeks)*	1992 *(52 Weeks)*
Revenues			
Commissions	$ 2,870,541	$ 2,894,228	$ 2,422,084
Interest and dividends	9,577,561	7,099,155	5,806,710
Principal transactions	2,334,924	2,920,439	2,165,725
Investment banking	1,239,465	1,831,253	1,484,067
Asset management and portfolio service fees	1,739,452	1,557,778	1,252,829
Other	471,148	285,324	281,253
Total Revenues	18,233,091	16,588,177	13,412,668
Interest Expense	8,608,570	6,029,947	4,835,267
Net Revenues	9,624,521	10,558,230	8,577,401
Non-Interest Expenses			
Compensation and benefits	4,951,839	5,255,258	4,364,454
Occupancy	436,168	572,936	477,754
Communications and equipment rental	432,214	385,809	366,161
Depreciation and amortization	325,121	308,499	281,228
Advertising and market development	374,619	376,881	301,146
Professional fees	367,003	290,324	256,887
Brokerage, clearing, and exchange fees	337,512	280,712	277,166
Other	670,441	663,003	631,216
Total Non-Interest Expenses	7,894,917	8,133,422	6,956,012
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	1,729,604	2,424,808	1,621,389
Income tax expense	712,843	1,030,449	668,984
Earnings Before Cumulative Effect of Changes in Accounting Principles	1,016,761	1,394,359	952,405
Cumulative Effect of Changes in Accounting Principles (net of applicable income taxes of $25,075 in 1993 and $55,291 in 1992)	–	(35,420)	(58,580)
Net Earnings	$ 1,016,761	$ 1,358,939	$ 893,825
Net Earnings Applicable to Common Stockholders	$ 1,004,050	$ 1,353,558	$ 887,486
Primary Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 4.75	$ 6.14	$ 4.18
Cumulative Effect of Changes in Accounting Principles	–	(.16)	(.26)
Net Earnings	$ 4.75	$ 5.98	$ 3.92
Fully Diluted Earnings Per Common Share			
Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 4.74	$ 6.11	$ 4.17
Cumulative Effect of Changes in Accounting Principles	–	(.16)	(.26)
Net Earnings	$ 4.74	$ 5.95	$ 3.91

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands, Except Per Share Amounts)	*December 30,* 1994	*December 31,* 1993
Assets		
Cash and cash equivalents	$ 2,311,743	$ 1,783,408
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	4,953,062	4,069,424
Marketable investment securities	2,325,453	1,749,254
Trading assets, at fair value		
Corporate debt and preferred stock	14,818,157	15,758,207
Contractual agreements	9,519,105	1,005,877
U.S. Government and agencies	8,196,584	7,287,081
Non-U.S. governments and agencies	6,468,341	9,260,725
Equities and convertible debentures	6,263,492	6,806,539
Mortgages and mortgage-backed	5,223,809	6,486,464
Municipals	1,291,688	1,606,097
Money markets	957,589	3,337,839
Total	52,738,765	51,548,829
Resale agreements	44,459,036	38,137,528
Securities borrowed	20,993,302	19,001,061
Receivables		
Customers *(net of allowance for doubtful accounts of $42,290 in 1994 and $47,953 in 1993)*	14,030,466	13,242,875
Brokers and dealers	6,486,879	7,292,332
Interest and other	4,360,693	2,758,768
Total	24,878,038	23,293,975
Investments of insurance subsidiaries	5,719,345	7,841,444
Loans, notes, and mortgages (net of allowance for loan losses of $180,799 in 1994 and $142,414 in 1993)	1,586,718	2,083,553
Other investments	887,626	873,806
Property, leasehold improvements, and equipment (net of accumulated depreciation and amortization of $1,867,476 in 1994 and $1,677,334 in 1993)	1,587,639	1,506,964
Other assets	1,308,600	1,021,116
Total Assets	$163,749,327	$152,910,362

	December 30, 1994	December 31, 1993
Liabilities and Stockholders' Equity		
Liabilities		
Repurchase agreements	$ 51,864,594	$ 56,418,148
Commercial paper and other short-term borrowings	26,439,645	23,214,329
Trading liabilities, at fair value		
U.S. Government and agencies	15,989,928	12,183,271
Contractual agreements	8,381,946	351,025
Non-U.S. governments and agencies	4,009,757	1,762,154
Equities and convertible debentures	3,990,146	3,953,850
Corporate debt and preferred stock	2,564,192	3,226,031
Municipals	165,906	184,041
Total	35,101,875	21,660,372
Customers	11,608,891	13,571,379
Insurance	5,689,513	7,405,673
Brokers and dealers	4,637,957	4,862,584
Other liabilities and accrued interest	7,725,924	6,823,064
Long-term borrowings	14,863,383	13,468,900
Total Liabilities	157,931,782	147,424,449
Stockholders' Equity		
Preferred Stockholders' Equity	618,800	193,800
Common Stockholders' Equity		
Common stock, par value $1.33 1/3 per share; authorized: 500,000,000 shares; issued: 1994 and 1993–236,330,162 shares	315,105	315,105
Paid-in capital	1,196,093	1,156,367
Foreign currency translation adjustment	3,703	(18,305)
Net unrealized (losses) gains on investment securities available-for-sale (net of applicable income tax (benefit) expense of $(30,924) in 1994 and $12,493 in 1993)	(56,957)	21,355
Retained earnings	5,605,616	4,777,142
Subtotal	7,063,560	6,251,664
Less:		
Treasury stock, at cost: 1994–48,423,944 shares 1993–23,408,139 shares	1,627,108	695,788
Unallocated ESOP reversion shares, at cost: 1994– 6,427,091 shares 1993– 8,932,332 shares	101,227	140,684
Employee stock transactions	136,480	123,079
Total Common Stockholders' Equity	5,198,745	5,292,113
Total Stockholders' Equity	5,817,545	5,485,913
Total Liabilities and Stockholders' Equity	$163,749,327	$152,910,362

See Notes to Consolidated Financial Statements

STATEMENTS OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY

(Dollars in Thousands, Except Per Share Amounts)	*Year Ended Last Friday in December* 1994	1993	1992
Preferred Stockholders' Equity			
9% Cumulative Preferred Stock, Series A			
$10,000 liquidation preference per share			
Balance, beginning of year	$ –	$ –	$ –
Issued (42,500 shares in 1994)	425,000	–	–
Balance, end of year (42,500 shares in 1994)	425,000	–	–
Remarketed Preferred Stock, Series C			
$100,000 liquidation preference per share			
Balance, beginning and end of year (3,000 shares in 1994, 1993, and 1992)	300,000	300,000	300,000
Remarketed Preferred Treasury Stock, at cost			
Balance, beginning of year (1,062 shares in 1994 and 1993; 945 shares in 1992)	(106,200)	(106,200)	(94,500)
Treasury stock purchased (117 shares in 1992)	–	–	(11,700)
Balance, end of year (1,062 shares in 1994, 1993, and 1992)	(106,200)	(106,200)	(106,200)
Balance, end of year	193,800	193,800	193,800
Total Preferred Stockholders' Equity	$ 618,800	$ 193,800	$ 193,800
Common Stockholders' Equity			
Common Stock, par value $1.33 1/3			
Balance, beginning of year (236,330,162 shares in 1994; 234,692,848 in 1993 and 1992)	$ 315,105	$ 312,922	$ 312,922
Issued for employee benefit plans (1,637,314 shares in 1993)	–	2,183	–
Balance, end of year (236,330,162 shares in 1994 and 1993; 234,692,848 in 1992)	$ 315,105	$ 315,105	$ 312,922
Paid-In Capital			
Balance, beginning of year	$1,156,367	$1,081,469	$ 999,612
Issuance of stock:			
To employees	(9,290)	(2,456)	(6,116)
For other activity, including employee stock grants	12,827	13,645	56,326
To ESOP (including allocation of shares in 1994, 1993, and 1992)	36,189	63,709	31,647
Balance, end of year	$1,196,093	$1,156,367	$1,081,469
Foreign Currency Translation Adjustment			
Balance, beginning of year	$ (18,305)	$ (6,129)	$ 10,219
Translation adjustment *(a)*	22,008	(12,176)	(16,348)
Balance, end of year	$ 3,703	$ (18,305)	$ (6,129)

	Year Ended Last Friday in December		
	1994	1993	1992
Net Unrealized (Losses) Gains on Investment Securities Available-for-Sale (net of applicable income taxes)			
Balance, beginning of year	$ 21,355	$ –	$ –
Net unrealized (losses) gains on investment securities available-for-sale	(410,068)	254,030	–
Other adjustments *(b)*	331,756	(232,675)	–
Balance, end of year	$ (56,957)	$ 21,355	$ –
Retained Earnings			
Balance, beginning of year	$ 4,777,142	$3,570,980	$2,803,392
Net earnings	1,016,761	1,358,939	893,825
Cash dividends declared:			
9% Cumulative Preferred stock	(6,163)	–	–
Remarketed Preferred stock	(6,391)	(5,290)	(6,745)
Common stock ($.89 per share in 1994; $.70 in 1993; $.575 in 1992)	(175,733)	(147,487)	(119,492)
Balance, end of year	$ 5,605,616	$4,777,142	$3,570,980
Common Treasury Stock, at cost			
Balance, beginning of year (23,408,139 shares in 1994; 16,288,488 in 1993; 15,612,392 in 1992)	$ (695,788)	$ (286,599)	$ (167,507)
Treasury stock purchased (29,988,523 shares in 1994; 16,345,568 in 1993; 10,653,858 in 1992)	(1,138,467)	(695,431)	(259,526)
Issued out of treasury (net of reacquisitions):			
Employees (1,026,321 shares in 1994; 955,391 in 1993; 1,272,014 in 1992)	42,509	33,299	34,421
Employee stock grants (3,946,397 shares in 1994; 8,270,526 in 1993; 8,705,748 in 1992)	164,638	252,943	106,013
Balance, end of year (48,423,944 shares in 1994; 23,408,139 in 1993; 16,288,488 in 1992)	$(1,627,108)	$ (695,788)	$ (286,599)
Unallocated ESOP Reversion Shares, at cost			
Balance, beginning of year (8,932,332 shares in 1994; 11,201,672 in 1993; 13,636,820 in 1992)	$ (140,684)	$ (176,426)	$ (214,780)
Allocation of shares to participants (2,505,241 shares in 1994; 2,269,340 in 1993; 2,435,148 in 1992)	39,457	35,742	38,354
Balance, end of year (6,427,091 shares in 1994; 8,932,332 in 1993; 11,201,672 in 1992)	$ (101,227)	$ (140,684)	$ (176,426)
Employee Stock Transactions			
Balance, beginning of year	$ (123,079)	$ (120,913)	$ (131,270)
Net issuance of employee stock grants	(120,512)	(115,251)	(105,342)
Amortization of employee stock grants	100,367	106,867	109,908
Repayment of employee loans	6,744	6,218	5,791
Balance, end of year	$ (136,480)	$ (123,079)	$ (120,913)
Total Common Stockholders' Equity	$ 5,198,745	$5,292,113	$4,375,304
Total Stockholders' Equity	$ 5,817,545	$5,485,913	$4,569,104

(a) Net of income tax (expense) benefit of $(7,513) in 1994, $(1,837) in 1993, and $386 in 1992.
(b) Other adjustments consist of policyholder liabilities, deferred policy acquisition costs, and deferred income taxes.

See Notes to Consolidated Financial Statements

Statements of Consolidated Cash Flows

(Dollars in Thousands)	*Year Ended Last Friday in December* 1994	1993	1992
Cash Flows from Operating Activities:			
Net Earnings	$ 1,016,761	$ 1,358,939	$ 893,825
Noncash items included in earnings:			
Cumulative effect of changes in accounting principles	–	35,420	58,580
Depreciation and amortization	325,121	308,499	281,228
Policyholder reserves	353,871	516,741	624,012
Other	658,372	683,276	795,220
(Increase) decrease in operating assets:			
Trading assets	6,610,064	(19,829,640)	(6,794,804)
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	(883,638)	(644,713)	(70,120)
Securities borrowed	(1,992,241)	(5,435,258)	(1,734,088)
Customers	(826,440)	(3,481,056)	(2,409,415)
Maturities and sales of trading investment securities	197,376	–	–
Purchases of trading investment securities	(213,040)	–	–
Other	(272,544)	(3,708,028)	(550,705)
Increase (decrease) in operating liabilities:			
Trading liabilities	5,641,503	7,088,268	4,977,122
Customers	(1,962,488)	3,673,980	(340,505)
Insurance	(1,855,494)	(2,028,539)	(1,221,883)
Other	607,296	4,354,789	276,785
Cash Provided by (Used for) Operating Activities	7,404,479	(17,107,322)	(5,214,748)
Cash Flows from Investing Activities:			
Proceeds from (payments for):			
Maturities of available-for-sale securities	2,609,577	–	–
Sales of available-for-sale securities	1,377,234	–	–
Purchases of available-for-sale securities	(2,296,355)	–	–
Maturities of held-to-maturity securities	1,964,580	–	–
Purchases of held-to-maturity securities	(2,536,824)	–	–
Maturities and sales of investments by insurance subsidiaries	–	3,983,077	3,904,587
Purchases of investments by insurance subsidiaries	–	(2,438,571)	(3,304,652)
Marketable investment securities	–	(575,284)	(828,647)
Other investments and other assets	(390,651)	(176,322)	344,263
Property, leasehold improvements, and equipment	(405,796)	(406,348)	(131,246)
Cash Provided by (Used for) Investing Activities	321,765	386,552	(15,695)
Cash Flows from Financing Activities:			
Proceeds from (payments for):			
Repurchase agreements, net of resale agreements	(10,875,062)	10,872,443	(1,770,519)
Commercial paper and other short-term borrowings	3,225,316	4,445,206	4,593,854
Issuance and resale of long-term borrowings	10,352,802	7,861,813	6,773,739
Settlement and repurchases of long-term borrowings	(9,089,491)	(5,263,104)	(3,861,745)
Issuance of 9% Cumulative Preferred stock	425,000	–	–
Repurchases of Remarketed Preferred stock	–	–	(11,700)
Common stock transactions	(1,048,187)	(510,975)	(189,301)
Dividends	(188,287)	(152,777)	(126,237)
Cash (Used for) Provided by Financing Activities	(7,197,909)	17,252,606	5,408,091
Increase in Cash and Cash Equivalents	528,335	531,836	177,648
Cash and Cash Equivalents, beginning of year	1,783,408	1,251,572	1,073,924
Cash and Cash Equivalents, end of year	$ 2,311,743	$ 1,783,408	$1,251,572

Supplemental Disclosure of Cash Flow Information
Cash paid for:
Income taxes totaled $1,189,999 in 1994, $1,031,980 in 1993, and $590,481 in 1992.
Interest totaled $8,452,103 in 1994, $5,788,218 in 1993, and $4,753,336 in 1992.

See Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merrill Lynch & Co., Inc. has established comprehensive accounting policies for the parent company and its subsidiaries. These policies, which incorporate prevailing industry practices, are in accordance with generally accepted accounting principles and provide guidance on the recognition of revenues and expenses, the valuation of assets, and the recording of liabilities and reserves. A description of significant accounting policies follows.

Basis of Presentation

The consolidated financial statements include the accounts of Merrill Lynch & Co., Inc. and all significant subsidiaries (collectively referred to as the "Corporation"). All material intercompany balances and transactions have been eliminated.

Certain limited classification and format changes have been implemented in the 1994 consolidated financial statements. Prior years' financial statements have been reclassified to conform to the 1994 presentation.

Trading Instruments

Trading assets and trading liabilities, including commitments for securities sold but not yet purchased, are recorded on a trade date basis at fair value. Fair value is based on quoted market prices, pricing models (utilizing indicators of general market conditions or other economic measurements), or management's estimates of amounts to be realized on settlement, assuming current market conditions and an orderly disposition over a reasonable period of time.

Derivative financial instruments include futures, forwards, options, and swaps including swap options, caps, collars, and floors. Derivatives held for trading or to hedge trading inventory positions are marked-to-market daily. Market values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices. Market values for over-the-counter ("OTC") derivative financial instruments, principally forwards, options, and swaps, are based on pricing models using mid-market valuations adjusted, as required, to reflect amounts which would be received from or paid to a third party in settlement of the contracts. These adjustments are integral components of the mark-to-market process and relate to credit spreads, market liquidity, concentrations, close-out costs associated with unmatched positions, and funding and administrative costs incurred over the life of the instrument.

Unrealized gains and losses from derivative transactions are reported separately as assets and liabilities unless a legal right of setoff exists under a master netting arrangement enforceable at law. Balances related to swap and forward transactions and foreign currency options are included in "Contractual agreements" on the Consolidated Balance Sheets. All other contract balances are recorded with the related trading asset or liability. The fair value of equity options purchased, for example, is recorded in the "Equities and convertible debentures" trading asset caption.

The Corporation enters into when-issued and delayed delivery transactions. Unrealized gains and losses from these transactions are recorded in the related trading asset or liability account, respectively.

Principal transactions revenues are recognized on a trade date basis and include net unrealized gains or losses from marking-to-market trading instruments, including derivative contracts, when-issued and delayed delivery transactions, and hedge positions related to trading activities. Realized trading gains and losses and the interest amounts on the related instruments are also included in current period earnings as principal transactions revenues and interest revenues and expenses, respectively.

Financing and Related Activities

The Corporation's objective is to match-fund the interest sensitivity of its assets and liabilities. Funding is principally obtained from commercial paper, repurchase agreements, and long-term borrowings. The Corporation uses derivative financial instruments to manage interest rate, foreign currency, and other exposures. Derivatives which modify the interest rate characteristics of specified assets and liabilities are accounted for on an accrual basis, with amounts to be paid or received recognized as adjustments to interest income or expense. Realized gains and losses on early terminations of interest rate contracts are deferred and amortized over the remaining lives of the hedged assets or liabilities. Unrealized gains and losses on all other derivatives are recognized currently. At December 30, 1994, there were no deferred amounts related to terminated contracts.

Repurchase and resale agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts, plus accrued interest. The Corporation's policy is to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily and the Corporation may require counterparties to deposit additional collateral or return collateral pledged, when appropriate, to ensure that the market value of the underlying collateral remains sufficient.

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Corporation to provide the counterparty with collateral in the form of cash, letters of credit, or other securities. The Corporation receives collateral in the form of cash or other securities for securities loaned transactions. For cash and noncash collateral transactions, the fee received or paid by the Corporation is recorded in the Statements of Consolidated Earnings as interest income or interest expense. The Corporation monitors the market value of securities borrowed or loaned against the collateral value daily.

Substantially all collateralized financing activities are transacted under master netting agreements which give the Corporation the right, in the event of default, to liquidate collateral held and to setoff receivables and payables with the same counterparty. For financial reporting purposes, the

Corporation offsets certain receivables and payables with the same counterparty on the Consolidated Balance Sheets.

Investment Securities

The Corporation holds debt and equity investments principally in non-broker-dealer subsidiaries. These investments are classified as held-to-maturity, trading, or available-for-sale. Held-to-maturity investments are debt securities which the Corporation has the positive intent and ability to hold to maturity. These investments are recorded at amortized cost unless a decline in value is deemed other than temporary, in which case the carrying value is adjusted. The amortization of premium or accretion of discount, as well as any unrealized loss deemed other than temporary, is included in current period earnings.

Debt and equity securities purchased principally for the purpose of resale in the near term are recorded as trading investments at fair value. Unrealized gains or losses on these investments are included in earnings of the current period.

Other debt and equity securities which are not categorized as held-to-maturity or trading are classified as available-for-sale and reported at fair value. Unrealized gains or losses on these securities are reported as a separate component of stockholders' equity, net of applicable income taxes and other related items.

Restricted equity investment securities or equity investment securities without available market quotations are reported at the lower of cost or estimated net realizable value. Realized gains and losses and unrealized losses resulting from adjustments in carrying values are included in current period earnings.

The Corporation periodically reviews its investment securities for appropriate classification. Investment securities transferred among categories, although infrequent, are recorded at fair value. The cost basis of each investment sold is specifically identified for purposes of computing realized gains and losses.

Commissions and Related Expenses

Commissions charged for executing customer transactions are accrued on a trade date basis and included in current period earnings. Production-related compensation and benefits expense is accrued to match revenue recognition.

Investment Banking

Underwriting revenues and fees for mergers and acquisitions and advisory assignments are recorded when services for the transaction are substantially completed. Deal-related expenses are deferred and later expensed to match revenue recognition.

Income Taxes

Merrill Lynch & Co., Inc. and certain of its wholly owned subsidiaries file a consolidated Federal income tax return. The Corporation uses the asset and liability method in providing income taxes on all transactions that have been recognized in the consolidated financial statements. The asset and liability method requires that deferred taxes be adjusted to reflect the tax rates at which future taxable amounts will be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period such changes are enacted. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The Corporation does not provide for deferred income taxes on the undistributed earnings of foreign subsidiaries that are considered to be permanent in duration.

Property, Leasehold Improvements, and Equipment

Property (excluding land), leasehold improvements, and equipment are reported at historical cost, net of accumulated depreciation and amortization. Land is reported at historical cost.

Depreciation and amortization are computed using the straight-line method. Property and equipment are depreciated over the estimated useful lives of the assets, while leasehold improvements are amortized over the lesser of the estimated economic useful life of the asset or the term of the lease. Most of the Corporation's fixed assets are technology-based and have shorter lives, generally three to five years. Maintenance and repair costs are expensed as incurred.

Facilities-related depreciation and amortization expense was $135,485, $140,340, and $130,448 in 1994, 1993, and 1992, respectively. Non-facilities-related depreciation and amortization expense for 1994, 1993, and 1992 was $189,636, $168,159, and $150,780, respectively.

Insurance

Insurance liabilities are future benefits payable under annuity and interest-sensitive life contracts and include deposits received plus interest credited during the contract accumulation period, the present value of future payments for contracts which have annuitized, and a mortality provision for certain products. Certain policyholder liabilities are also adjusted for those investments classified as available-for-sale (see discussion that follows). Interest crediting rates range from 2.8% to 10.0%. Liabilities for unpaid claims and claim adjustment expenses are based on the experience of the Corporation. Policy deposits are recorded as insurance liabilities when received. Policy withdrawal, maintenance, and other fees are recognized as revenue when earned.

Substantially all investments of insurance subsidiaries, principally debt securities, are classified as available-for-sale and recorded at fair value. These investments support the Corporation's in-force, universal life-type contracts as defined by Statement of Financial Accounting Standards ("SFAS") No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. The Corporation records an adjustment to deferred acquisition costs and policyholder account balances which, when combined, are equal to the adjustment that would have been recorded if those available-for-sale investments had been sold at their estimated

fair values and the proceeds reinvested at current yields. The corresponding credits or charges for these adjustments are recorded as unrealized gains or losses in stockholders' equity, net of applicable income tax expense or benefit. Prior to December 31, 1993, these investments were recorded at amortized cost.

Certain variable costs related to the sale or acquisition of new and renewal insurance contracts have been deferred to the extent such costs are deemed recoverable from future income. Deferred costs are amortized, based on actuarial factors, over the lives of the contracts in proportion to the estimated gross profit expected to be realized for each group of contracts.

The Corporation maintains separate accounts representing segregated funds held for purposes of funding variable annuity and variable life contracts. Subsidiaries of the Corporation receive various administrative and advisory fees for managing such funds. Separate account assets are accounted for as customer assets since the contract holders bear the risk of ownership, consistent with the Corporation's other investment products. Accordingly, separate account assets and the related liabilities are not consolidated with the assets and liabilities of the Corporation.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries are translated at year-end currency exchange rates, while revenues and expenses are translated at average currency exchange rates during the year. Adjustments that result from translating foreign currency financial statements, net of hedging gains or losses and related tax effects, are reported as a separate component of stockholders' equity. Gains or losses resulting from the effect of exchange rate changes on foreign currency transactions are included in earnings of the current period.

Cash Flows

For purposes of the Statements of Consolidated Cash Flows, the Corporation defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of less than 90 days.

Interest Expense

Interest expense includes payments in lieu of dividends of $22,738, $21,436, and $12,556 in 1994, 1993, and 1992, respectively.

OTHER SIGNIFICANT EVENTS

Accounting Changes

On January 1, 1994, the Corporation adopted FASB Interpretation ("Interpretation") No. 39, *Offsetting of Amounts Related to Certain Contracts*. Interpretation No. 39 affects the financial statement presentation of balances related to swap, forward, and other similar exchange or conditional type contracts, and unconditional type contracts. The Corporation is generally required to report separately on the Consolidated Balance Sheets unrealized gains as assets, and unrealized losses as liabilities. For exchange or conditional contracts, netting is permitted only when a legal right of setoff exists with the same counterparty under a master netting arrangement enforceable at law. To offset unconditional contracts, such as resale and repurchase agreements, net cash settlement of the related receivable and payable balances is also required by Interpretation No. 39, as modified by Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*.

Prior to the adoption of these Interpretations, the Corporation followed industry practice in reporting balances related to certain types of contracts on a net basis. Unrealized gains and losses for swap, forward, and other similar contracts were reported net on the Consolidated Balance Sheets by contract type, while certain receivables and payables related to resale and repurchase agreements were reported net by counterparty. At December 30, 1994, assets and liabilities increased approximately $8,500,000 for the effect of these Interpretations.

In 1993, the Corporation adopted SFAS No. 112, *Employers' Accounting for Postemployment Benefits*, and SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

SFAS No. 112 establishes accrual accounting standards for employer-provided benefits which cover former or inactive employees after employment but before retirement ("post-employment benefits"). Prior to 1993, the Corporation accounted for such costs on a modified "pay-as-you-go" basis. The cumulative effect of this change in accounting principle reported in the 1993 Statement of Consolidated Earnings resulted in a charge of $35,420 (net of applicable income tax benefits of $25,075). The incremental effect of adopting SFAS No. 112 on the 1993 results of operations was not material.

SFAS No. 115 requires certain subsidiaries of the Corporation, principally insurance and banking, to classify their investments in debt and qualifying equity securities into three categories: held-to-maturity, trading, or available-for-sale. Prior to adoption, these subsidiaries recorded investments in debt securities at amortized cost and investments in equity securities at the lower of cost or estimated net realizable value. At December 31, 1993, the increase to stockholders' equity for available-for-sale investments totaled $21,355 (net of $12,493 applicable income taxes). The impact of trading investments on the Corporation's financial statements was not material.

In 1992, the Corporation adopted SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and SFAS No. 109, *Accounting for Income Taxes*.

SFAS No. 106 requires accrual accounting for post-retirement benefits, primarily health care and life insurance benefits. The cumulative effect of this change in accounting principle, reported in the 1992 Statement of Consolidated Earnings, resulted in a charge of $76,354 (net of related income tax benefits of $55,291). The adoption of SFAS No. 106 increased compensation and benefits expense in 1992 by $8,500.

SFAS No. 109 changed the conditions under which deferred tax assets are recognized. The cumulative effect of this change in accounting principle reported in the 1992

Statement of Consolidated Earnings was an increase to earnings of $17,774, and related principally to recognition of deferred state and local tax benefits.

Occupancy Charge

The Corporation recorded a non-recurring pretax charge totaling $103,000 ($59,700 after income taxes) in the 1993 first quarter. The non-recurring charge related to the Corporation's decision not to occupy certain office space at its World Financial Center Headquarters facility and, instead, to sublease the unused space to third parties. This space was sublet in 1994.

The Corporation trades both derivative and cash financial instruments. While trading activities are primarily generated by client order flow, the Corporation also takes proprietary positions in interest rate, foreign exchange, debt, equity, and commodity instruments based on expectations of future market movements and conditions. The Corporation's trading strategies rely on the joint management of its client-driven and proprietary transactions, along with the hedging and financing of these positions.

Detailed information on principal transactions revenues by product category follows[1]:

(In Millions)	1994	1993	1992
Interest rate and currency swaps	$ 749	$ 605	$ 390
Equities and equity derivatives	627	871	614
Taxable fixed-income	462	964	736
Municipals	388	322	268
Foreign exchange and commodities	109	158	158
Total	$2,335	$2,920	$2,166

[1] *The revenue amounts presented include gains and losses from cash instruments and related derivatives, including swaps, forwards, futures, and options.*

Interest revenues and expense are integral components of trading activities. In assessing the profitability of financial instruments, the Corporation views net interest and principal transactions activity in the aggregate. (See "Principal Transactions" section of Management's Discussion and Analysis–unaudited for further information on the Corporation's net trading results.)

INSTRUMENTS WITH SHEET RISK

Certain trading-related financial instruments have market and/or credit risk in excess of amounts recorded on the Consolidated Balance Sheets. Financial instruments with off-balance-sheet risk include derivatives, securities sold but not yet purchased, and certain commitments.

SFAS No. 119, *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*, defines a derivative as a futures, forward, swap, or option contract, or other financial instrument with similar characteristics. The SFAS No. 119 definition excludes all on-balance-sheet receivables and payables, including those that "derive" their values or contractually required cash flows from the price of some other security or index, such as mortgage-backed securities, interest-only and principal-only obligations, and indexed debt instruments. It also excludes option features embedded in on-balance-sheet receivables or payables. Conversion features and call provisions embedded in a convertible bond, for example, would not qualify as a derivative under the SFAS No. 119 definition.

Derivative contracts often involve future commitments to exchange interest payment streams, to purchase or sell other financial instruments (including mortgage-backed securities) at specified terms on a specified date, or to exchange currencies. In addition, the Corporation purchases and writes options on a wide range of financial instruments such as securities, currencies, futures, and various market indices. Options can require the writer to purchase or sell a specified financial instrument or commodity, or to make a cash payment based on changes in a reference index or interest rate. Different forward commitment and option terms can also be combined to meet specialized needs. Interest rate caps and floors provide the purchaser with protection against rising and falling interest rates, respectively. Interest rate collars combine a cap and a floor, providing the purchaser with a predetermined interest rate range. Swap options provide the purchaser with an option to enter into or to cancel an existing swap contract in the future. The Corporation enters into various derivative financial instruments to meet clients' needs and to manage its own interest rate, currency, and market risks. (See "Derivative Financial Instruments" and "Risk Management" sections of Management's Discussion and Analysis–unaudited.)

Market Risk

Market risk is the potential change in value caused by movements in interest rates, foreign exchange rates, or market prices of the underlying financial instrument. The level of market risk is influenced by the volatility and liquidity in the markets in which financial instruments are traded.

The Corporation seeks to control market risk by developing and refining hedging strategies that correlate price and currency movements of trading inventories and related hedges. In many cases, derivative financial instruments are used to hedge other on- and off-balance-sheet transactions. The notional or contractual amounts of derivative financial instruments provide only a measure of involvement in these types of transactions and do not represent the amounts subject to market risk.

A discussion of market risk related to derivative financial instruments used for trading purposes by risk type and class of instrument as of December 30, 1994 follows.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. Interest rate swap contracts are a common interest rate risk management tool. Eurodollar and U.S. Treasury securities

futures are also effective in managing interest rate risk. The decision to manage interest rate risk using futures or swap contracts, as opposed to buying or selling short U.S. Treasury securities, depends on current market conditions and funding considerations.

The table that follows summarizes the Corporation's derivative financial instruments with interest rate risk:

(In Billions)	Notional Amount
Swap agreements	$653
Futures contracts	$172
Options held	$ 75
Options written	$ 74
Forward contracts	$ 29

Included in interest rate swap agreements are caps, collars, and floors, swap options, basis swaps, and leveraged swap contracts. Basis swaps are a type of interest rate swap agreement where rates received and paid are variable based on different index rates. Leveraged swaps are another type of interest rate swap where changes in the variable rate are multiplied by a contractual leverage factor, such as four times three-month LIBOR (London Interbank Offered Rate). The Corporation's exposure to interest rate risk resulting from these leverage factors is hedged with other financial instruments.

The forward contracts category principally contains "To Be Announced" mortgage pools which bear interest rate as well as principal prepayment risk.

Currency Risk

Currency risk arises from the possibility that fluctuations in foreign exchange rates will affect the value of financial instruments. Foreign exchange forwards and options are commonly used to manage currency risk. Currency swaps are also used primarily in situations where a long-dated forward market is not available or where the end-user needs a customized instrument to hedge a foreign currency cash flow stream. Parties to a currency swap initially exchange principal amounts in two currencies, agreeing to exchange interest payments and to re-exchange the currencies at a future date and agreed-upon rate.

The Corporation's derivative financial instruments with currency risk are presented below:

(In Billions)	Notional Amount
Forward contracts	$103
Swap agreements	$ 73
Options held	$ 22
Options written	$ 22

A number of the Corporation's foreign currency contracts included above are subject to both interest rate and currency risk. The Corporation's foreign exchange contracts relate primarily to major currencies such as the Japanese yen, German mark, and British pound.

Equity Price Risk

Equity price risk arises from the possibility that equity prices will fluctuate, affecting the value of contracts which derive their value from a stock index, a particular stock, or a defined basket of stocks.

The notional amounts of derivative financial instruments subject to equity price risk follow:

(In Billions)	Notional Amount
Options held	$22
Options written	$21
Swap agreements	$ 2
Futures contracts	$ 2

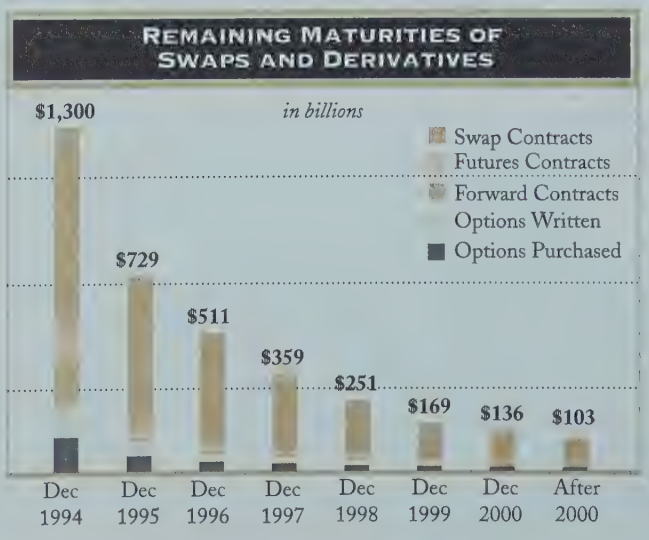
Commodity Price Risk

The Corporation views its commodity contracts as financial instruments since they are generally settled in cash and not by delivery of the underlying commodity. Market risk results from the possibility that the price of the underlying commodity may rise or fall. The notional amounts of derivative financial instruments subject to commodity price risk are summarized as follows:

(In Billions)	Notional Amount
Options held	$12
Options written	$ 7
Forward contracts	$ 7
Swap agreements	$ 2
Futures contracts	$ 2

Cash flows from commodity swaps are based on the difference between an agreed-upon fixed price, and a price that varies with changes in a specified commodity index. Commodity contracts held relate principally to natural resources and base metals.

Most of the Corporation's off-balance-sheet derivative trading transactions are short-term with a weighted average maturity of approximately 2.29 years as of December 30, 1994 and 2.62 years as of December 31, 1993. The remaining maturities for notional or contractual amounts outstanding for swaps, futures, forwards, and other derivatives follow:



At December 31, 1993, the notional amount of swap agreements including swap options, caps, collars, and floors was $560 billion. Notional amounts of forward, futures, and written option contracts were $154 billion, $105 billion, and $72 billion, respectively, at December 31, 1993.

In addition to futures, forward, swap, and option contracts, the Corporation enters into commitments to sell securities not yet purchased which are recorded as trading liabilities on the Consolidated Balance Sheets. The Corporation is exposed to off-balance-sheet risk that potential market price increases will cause the ultimate obligations under these commitments to exceed the amount recognized on the balance sheet.

NANCING AND OTHER NON-TRADING ACTIVITIES

The Corporation issues dollar and foreign currency-denominated debt with both variable and fixed-rate interest payment obligations. The Corporation enters into swap agreements to convert fixed-rate interest payments on its debt obligations into variable rate payments, while virtually all foreign currency-denominated fixed-rate obligations are swapped into variable rate dollar liabilities. Interest obligations on variable rate long-term debt and commercial paper may also be modified through basis swaps, which change the underlying interest rate basis or reset frequency. The Corporation also issues callable debt and debt which is linked to the performance of an equity or commodity index (e.g., S&P 500 or ENMET℠) or an industry basket of stocks (e.g., telecommunication stocks). These features in a debt instrument are often referred to as embedded options. The contingent components of these indexed and callable debt issuances and the related hedges are recorded at amounts which approximate fair value.

For other non-trading activities, the Corporation uses interest rate swaps to modify the interest rate characteristics of specified repurchase, resale, and certain customer transactions. The Corporation also uses currency swaps to hedge investments in and loans to international subsidiaries.

The notional amounts of derivative financial instruments used by the Corporation for purposes other than trading as of December 30, 1994 follow:

(In Billions)	Notional Amount
Interest rate swap contracts[1]	$22
Foreign exchange swap contracts[1]	$ 3
Equity options held	$ 1

[1] *Includes options embedded in swap contracts on callable debt totaling $1 billion notional.*

Most of the above transactions are entered into with the Corporation's swaps and foreign exchange dealer subsidiaries which intermediate the interest rate and currency risk with third parties in the normal course of their trading activities.

CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit Risk

Credit risk is the amount of accounting loss that the Corporation would incur if a counterparty failed to perform its obligations under contractual terms and the collateral held, if any, was deemed worthless. From an economic standpoint, however, credit risk is evaluated net of collateral. The Corporation also attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties.

Credit risk is limited to the current cost of replacing those contracts in a gain position (i.e., the accounting loss). The notional or contractual values of futures, forward, and swap contracts do not represent exposure to credit risk. For futures contracts, the Corporation usually does not intend to take or make physical delivery of the underlying security, asset, or index. Since futures contracts are exchange-traded and require daily cash settlement, the related risk of accounting loss is limited to a one-day net positive change in market value. Option contracts can be exchange-traded or OTC contracts. Purchased options have credit risk to the extent of their replacement cost. Written options represent a potential obligation of the Corporation and, accordingly, do not subject the Corporation to credit risk.

At December 30, 1994, credit risk related to trading derivatives is recorded on the Consolidated Balance Sheet. At December 31, 1993, prior to the adoption of Interpretation No. 39, $6.7 billion of credit risk was not required to be recorded on the Consolidated Balance Sheet.

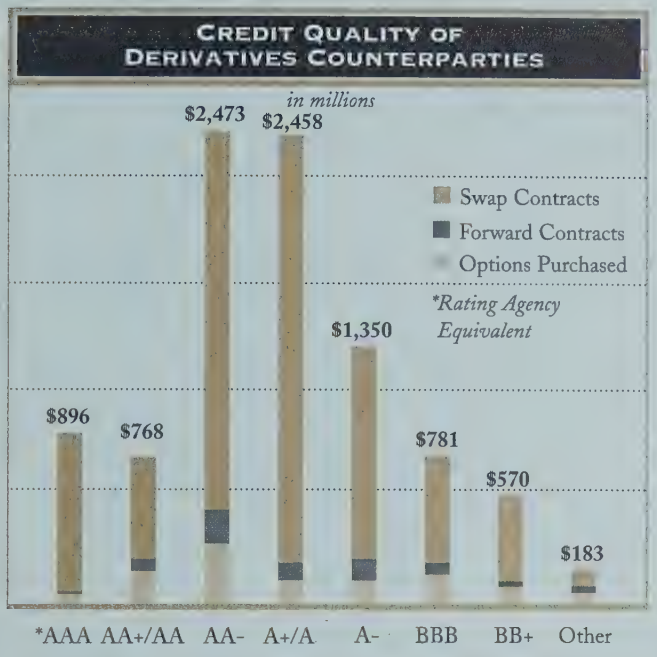
To reduce credit risk, the Corporation requires collateral, principally U.S. Government and agencies securities, on certain derivative transactions. Presented below is a table of counterparty credit ratings for the replacement cost (net of $863,000 collateral) of derivatives contracts in a gain position by maturity at December 30, 1994.

	Years to Maturity					
(In Millions)	0-3	3-5	5-7	Over 7	Cross-maturity netting[1]	Total
Credit Rating[2]						
AAA	$ 602	$ 337	$ 10	$ 7	$ (60)	$ 896
AA+/AA	448	125	84	288	(177)	768
AA−	1,307	467	237	625	(163)	2,473
A+/A	842	1,022	314	531	(251)	2,458
A−	770	204	142	543	(309)	1,350
BBB	483	215	32	82	(31)	781
BB+	290	53	230	82	(85)	570
Other	155	15	5	9	(1)	183
Total	$ 4,897	$ 2,438	$ 1,054	$ 2,167	$ (1,077)	$ 9,479

[1] *Represents netting of payable balances with receivable balances for the same counterparty across maturity year categories. Receivable and payable balances with the same counterparty in the same maturity category, however, are net within the maturity category.*

[2] *Represents rating agency equivalent.*

At December 30, 1994, 92% of such contracts were with investment grade counterparties. Counterparty credit ratings for the replacement cost (net of collateral) of contracts in a gain position, after consideration of master netting agreements, are summarized by contract in the graph that follows:



In the normal course of business, the Corporation incurs credit risk when executing, settling, and financing various customer security and commodity transactions. Execution of these transactions includes the purchase and sale (including "short sales") of securities, the writing of options, and the purchase and sale of commodity and financial futures contracts. These activities may expose the Corporation to off-balance-sheet risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Corporation may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to its customers or counterparties. The Corporation seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines.

Liabilities to other brokers and dealers related to unsettled transactions (i.e., securities failed to receive) are recorded at the amount for which the securities were acquired and are paid upon receipt of the securities from other brokers or dealers. In the case of aged securities failed to receive, the Corporation may purchase the underlying security in the market and seek reimbursement for losses from the counterparty.

The Corporation borrows and lends securities to finance securities transactions and to facilitate the settlement process, utilizing both securities owned by the Corporation and securities owned by customers collateralizing margin debt. In addition, securities transactions are financed through resale and repurchase agreements, generally collateralized by U.S. Government and agencies securities, medium-term notes, asset-backed securities, or certain non-U.S. governments and agencies securities.

The market value of securities owned by the Corporation that have been loaned or were collateralizing either repurchase agreements or obligations associated with various settlement processes at December 30, 1994 and December 31, 1993, was $37,350,000, and $45,373,000, respectively.

The Corporation is also exposed to off-balance-sheet credit risk from various commitments and guarantees. In the normal course of business, the Corporation enters into commitments to extend credit, predominantly at variable interest rates, in connection with certain merchant banking and loan syndication transactions. Customers may also be extended lines of credit collateralized by first and second mortgages on real estate, certain liquid assets of small businesses, or securities. The Corporation also issues various guarantees to counterparties in connection with certain leasing, securitization, and other transactions. These commitments and guarantees usually have a fixed expiration date and are contingent on certain contractual conditions that may require payment of a fee by the counterparty. Once commitments are drawn upon or guarantees are issued, the Corporation may require the counterparty to post collateral depending upon creditworthiness and market conditions. The contractual amounts of these commitments and guarantees represent the amounts at risk should the contract be fully drawn upon, the client default, and the value of the existing collateral become worthless.

The total amount of outstanding commitments and guarantees may not represent future cash requirements as guarantees and commitments may expire without being drawn upon.

At December 30, 1994 and December 31, 1993, the Corporation had the following commitments and guarantees:

(In Millions)	1994	1993
Commitments to extend credit	$2,072	$1,248
Third party guarantees	$ 520	$ 587

The fair value of the outstanding guarantees was $22,000 at December 30, 1994 and $39,000 at December 31, 1993.

Concentrations of Credit Risk

The Corporation provides brokerage, investment, financing, insurance, and related services to a diverse group of domestic and foreign clients that includes governments, corporations, and institutional and individual investors. As a market-maker, the Corporation takes principal positions in U.S. and non-U.S. government securities and corporate obligations.

The Corporation measures its exposure to credit risk associated with these transactions on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in geographic, industry, or economic factors. To alleviate the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

At December 30, 1994, the Corporation's most significant concentration of credit risk was with the U.S. Government and its agencies. This concentration arises from trading and holding investment securities. Total holdings of U.S.

Government and agencies securities were $8,648,000 or 5% of total assets at December 30, 1994 and $8,533,000 or 6% of total assets at December 31, 1993.

At December 30, 1994, the Corporation had concentrations of credit risk with other counterparties including an Asian and two European sovereigns, each rated AA or above, or having equivalent ratings by recognized credit rating agencies. The total exposure to these counterparties, excluding collateral held, was $2,615,000 or 1.6% of total assets. In addition, at December 30, 1994, the Corporation had concentrations of credit risk related to resale agreements with two financial institutions and two pension programs totaling $2,401,000 and $1,988,000, respectively. The Corporation held collateral, consisting of U.S. Government and agencies securities, with market values in excess of contractual amounts. Excluding the collateral, these concentrations represented 2.7% of total assets.

At December 31, 1993, the Corporation had concentrations of credit risk with an Asian, a European, and a Latin American sovereign totaling $3,498,000 or 2.3% of total assets, excluding collateral held.

In addition to these specific exposures, the Corporation's most significant industry credit concentration is domestic and foreign financial institutions. Financial institutions include other brokers and dealers, commercial banks, automobile financing companies, insurance companies, and mutual funds. This concentration arises in the normal course of the Corporation's brokerage, trading, financing, and underwriting activities.

In connection with its mortgage trading activities, the Corporation had resale agreements collateralized by whole loans totaling $1,900,000 and $3,400,000 with mortgage bankers, banks, and thrifts at December 30, 1994 and December 31, 1993, respectively. The collateral had a market value of $2,100,000 at December 30, 1994 and $3,800,000 at December 31, 1993.

Additionally, the Corporation monitors regional exposures worldwide. Within these regions, sovereign governments represent the most significant credit concentration, followed by financial and non-financial institutions.

In conjunction with its investment and merchant banking activities, the Corporation, from time to time, provides short-term bridge financing, other extensions of credit, and equity investments to facilitate leveraged transactions. In the normal course of business, the Corporation also purchases, sells, and makes markets in non-investment grade securities. These activities expose the Corporation to a higher degree of credit risk than is associated with investing, extending credit, underwriting, and trading in investment grade instruments. At December 30, 1994, the Corporation's aggregate exposure to credit risk (both on- and off-balance-sheet) associated with non-investment grade securities, high-yield financings, and highly leveraged transactions amounted to $4,848,000. (See "Non-Investment Grade Holdings and Highly Leveraged Transactions" section of Management's Discussion and Analysis–unaudited.)

FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 30, 1994 and December 31, 1993, approximately 99% and 98% of financial instrument assets are carried at fair value or amounts which approximate fair value. Assets carried at amounts which approximate fair value consist predominantly of short-term financial instruments, which include cash and cash equivalents, cash and securities segregated for regulatory purposes or deposited with clearing organizations, resale agreements, securities borrowed, and receivables. Similarly, short-term liabilities, including repurchase agreements, other short-term borrowings, customers, brokers and dealers, and other liabilities and accrued interest, are carried at amounts which approximate fair value.

Trading assets and liabilities, including derivative financial instruments, are carried at fair value. Fair value for these instruments is estimated using market quotations for traded instruments, market quotations of similarly traded instruments, and pricing models. Market quotations for traded instruments are obtained from various sources, including the major securities exchanges and dealers. Pricing models, which consider the time value and volatility of the underlying financial instrument, are used to value derivatives and other contractual agreements.

The table below presents the 1994 12-month average fair values for the Corporation's derivative financial instruments used for trading purposes:

	Average Fair Value	
(In Millions)	Assets	Liabilities
Swap agreements	$8,349	$7,023
Forward contracts	$1,358	$1,365
Options	$1,714	$1,643

Derivative financial instruments used to hedge borrowings and other non-trading activities are recorded on an accrual basis. The fair value of these instruments and the related hedges is estimated using current market prices and pricing models. At December 30, 1994, the carrying and fair values of these instruments were as follows:

(In Thousands)	Carrying Value	Fair Value
Long-term borrowings	$14,863,383	$14,368,524
Related derivative assets	(133,343)	(168,371)
Related derivative liabilities	65,703	546,884
Total	$14,795,743	$14,747,037
Commercial paper	$14,758,830	$14,754,630
Related derivative liabilities	(144)	6,116
Total	$14,758,686	$14,760,746
Other non-trading liabilities	$ 1,634,800	$ 1,605,477
Related derivative assets	282	(3,587)
Related derivative liabilities	(3,237)	23,337
Total	$ 1,631,845	$ 1,625,227

The fair value of derivative assets hedging matched-book financing activity was $966 and exceeded the carrying value by $1,467 at December 30, 1994.

At December 31, 1993, the combined fair value of each non-trading activity, including related hedges, approximated their combined carrying value.

Marketable investment securities principally include U.S. Government and agencies securities, municipal securities, commercial paper, medium-term notes, and corporate debt held by subsidiaries of the Corporation to meet rating agency and other requirements. The fair value of these investment securities is estimated using market quotations. At December 30, 1994 and December 31, 1993, carrying value approximated fair value.

Insurance subsidiaries' investments are carried at fair value, which is generally estimated by market quotes obtained from exchanges for listed securities or dealers for unlisted securities.

Other financial instruments with carrying values different than fair values are presented below:

	December 30, 1994		December 31, 1993	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Merchant banking equity and debt portfolio	$ 556,458	$ 763,524	$ 780,665	$ 996,581
Loans, notes, and mortgages (excluding loans related to merchant banking)	$ 1,417,202	$ 1,428,412	$ 1,628,225	$ 1,639,551
Excess mortgage servicing rights	$ 107,022	$ 154,207	$ 72,117	$ 117,823

In connection with its merchant banking activities, the Corporation holds certain equity instruments, including partnership interests (included in other investments on the Consolidated Balance Sheets), and loans consisting primarily of senior and subordinated debt. Fair value for equity instruments is estimated using various methods including earnings multiples, cash flow analyses, and review of underlying financial conditions and other market factors. These instruments may be subject to restrictions (e.g., minority ownership, consent of other investors) which may limit the Corporation's ability to realize currently the estimated fair value. Accordingly, the Corporation's current estimate of fair value and its ultimate realization on these instruments may differ. Loans made in connection with merchant banking activities are carried at unpaid principal balances less a reserve for estimated losses. Fair value is estimated using discounted cash flows.

The Corporation's estimate of fair value for its loans, notes, and mortgages (excluding loans made in connection with merchant banking activities) is determined based on loan characteristics. For certain homogeneous categories of loans, including residential mortgages and home equity loans, fair value is estimated using market price quotations or previously executed transactions for securities backed by similar loans adjusted for credit risk and other individual loan characteristics. For the Corporation's variable rate loan receivables, carrying value approximates fair value.

Other assets include capitalized excess mortgage servicing rights. Capitalized excess servicing represents the net present value of estimated future servicing rights for mortgages securitized by the Corporation. Fair value is computed based on the present value of estimated future servicing revenues, using current market assumptions for discount rates, prepayment speeds, default estimates, and interest rates.

The Corporation holds a passive minority interest in a privately-held limited partnership that provides information services. Due to the lack of a ready market for this investment and contractual restrictions on the disposition of the Corporation's interest, the fair value of this investment is not readily determinable as of December 30, 1994. It is the opinion of management, however, that the fair value of this investment significantly exceeds the carrying value of $38,513.

INVESTMENT

The Corporation has several broad categories of investments on its Consolidated Balance Sheets, including investments of insurance subsidiaries, marketable investment securities, and other investments.

The Corporation's insurance subsidiaries have investments which are used to fund policyholder liabilities. Marketable investment securities consist of equity and debt securities held for rating agency purposes or to manage cash flows related to certain liabilities of the Corporation's banking subsidiaries. Other investments consist principally of equity and debt securities which were acquired primarily in connection with prior years' merchant banking activities. Certain merchant banking investments are subject to restrictions which may limit the Corporation's ability to realize its investment until such restrictions expire.

A reconciliation of the Corporation's investment securities to those reported on the Consolidated Balance Sheets follows:

	December 30, 1994	December 31, 1993
Investments of insurance subsidiaries:		
Available-for-sale	$4,189,653	$6,088,443
Trading	–	164,620
Non-qualifying	1,529,692	1,588,381
Total	$5,719,345	$7,841,444
Marketable investment securities:		
Available-for-sale	$ 486,071	$ 471,862
Trading	32,139	–
Held-to-maturity	1,807,243	1,277,392
Total	$2,325,453	$1,749,254
Other investments:		
Available-for-sale	$ 105,665	$ 151,801
Held-to-maturity	26,377	16,635
Non-qualifying	755,584	705,370
Total	$ 887,626	$ 873,806

Information regarding investment securities subject to SFAS No. 115 follows:

	Available-for-Sale			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1994				
Corporate debt	$3,009,029	$21,194	$(142,926)	$2,887,297
U.S. Government and agencies	365,055	1,260	(6,473)	359,842
Municipals	225,034	7,587	(11,174)	221,447
Mortgage-backed securities	1,239,498	11,897	(40,592)	1,210,803
Foreign government debt	4,198	–	(213)	3,985
Other debt securities	49,427	990	–	50,417
Total debt securities	4,892,241	42,928	(201,378)	4,733,791
Equity securities	45,186	6,181	(3,769)	47,598
Total	$4,937,427	$49,109	$(205,147)	$4,781,389

	Available-for-Sale			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1993				
Corporate debt	$3,516,922	$173,206	$(21,644)	$3,668,484
U.S. Government and agencies	366,690	1,128	(55)	367,763
Municipals	233,595	12,646	(1,152)	245,089
Mortgage-backed securities	2,294,935	91,144	(4,214)	2,381,865
Foreign government debt	–	–	–	–
Other debt securities	–	–	–	–
Total debt securities	6,412,142	278,124	(27,065)	6,663,201
Equity securities	45,934	6,591	(3,620)	48,905
Total	$6,458,076	$284,715	$(30,685)	$6,712,106

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1994				
Corporate debt	$1,187,784	$ 179	$(17,138)	$1,170,825
U.S. Government and agencies	104,127	18	(1,146)	102,999
Municipals	783	10	–	793
Foreign government debt	27,725	–	(429)	27,296
Mortgage-backed securities	496,679	5	(15,608)	481,076
Other debt securities	16,522	6	–	16,528
Total	$1,833,620	$ 218	$(34,321)	$1,799,517

	Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1993				
Corporate debt	$ 601,452	$1,455	$ (648)	$ 602,259
U.S. Government and agencies	203,992	246	(42)	204,196
Municipals	778	46	–	824
Foreign government debt	2,992	40	–	3,032
Mortgage-backed securities	483,966	7,887	–	491,853
Other debt securities	847	41	(1)	887
Total	$1,294,027	$9,715	$ (691)	$1,303,051

The carrying value and estimated fair value of debt securities at December 30, 1994 by contractual maturity for available-for-sale and held-to-maturity investment securities follow:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 424,562	$ 425,091	$ 783,695	$ 775,635
Due after one year through five years	1,491,434	1,449,079	551,271	540,831
Due after five years through ten years	1,332,579	1,260,251	181	181
Due after ten years	404,168	388,567	1,794	1,794
Subtotal	3,652,743	3,522,988	1,336,941	1,318,441
Mortgage-backed securities	1,239,498	1,210,803	496,679	481,076
Total [1]	$4,892,241	$4,733,791	$1,833,620	$1,799,517

[1] *Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.*

For registrants subject to the information reporting requirements of the Securities Exchange Act of 1934, there are additional requirements under SFAS No. 115. The Corporation's insurance subsidiaries are required to adjust deferred acquisition costs and certain policyholder liabilities associated with investments classified as available-for-sale. These investments primarily support in-force, universal life-type contracts under SFAS No. 97. These adjustments are recorded in stockholders' equity and assume that the unrealized gain or loss on available-for-sale securities were realized. The table that follows provides the components of the amount recorded in stockholders' equity for available-for-sale investments.

	1994	1993
Net unrealized (losses) gains on investment securities available-for-sale	$(410,068)	$254,030
Adjustments for policyholder liabilities	214,537	(205,495)
Adjustments for deferred policy acquisition costs	73,802	(14,687)
Deferred income tax benefit (expense)	43,417	(12,493)
Net activity	(78,312)	21,355
Net unrealized gains on investment securities classified as available-for-sale, beginning of year	21,355	–
Net unrealized (losses) gains on investment securities classified as available-for-sale, end of year	$ (56,957)	$ 21,355

During 1994, certain available-for-sale investments were sold. The gross proceeds from the sale of these investments were $1,377,234 with gross realized gains and losses totaling $30,593 and $33,737, respectively. At December 30, 1994, the Corporation had $32,139 of trading investment securities which were recorded at fair value. The Corporation's insurance subsidiaries hold policy loans and other non-qualifying investments totaling $1,529,692. The estimated fair value of all investments of insurance subsidiaries was $5,719,345 at December 30, 1994, with gross unrealized gains of $33,439 and gross unrealized losses of $190,752. Net unrealized losses from trading investment securities included in the 1994 Statement of Consolidated Earnings was $7,331.

STOCKHOLDERS' EQUITY

Preferred Equity

The Corporation is authorized to issue 25,000,000 shares of undesignated preferred stock, $1.00 par value per share. In 1994, the Corporation's Board of Directors (the "Board") delegated to the Executive Committee of the Board the authority to authorize the issuance, from time to time, of up to 100,000 shares of previously undesignated preferred stock having an aggregate liquidation preference not to exceed $600,000.

9% Cumulative Preferred Stock, Series A

In the 1994 fourth quarter, the Corporation issued 17,000,000 Depositary Shares, each representing a one-four-hundredth interest in a share of 9% Cumulative Preferred Stock, Series A, $10,000 liquidation preference per share ("9% Preferred Stock"). The 9% Preferred Stock is a single series consisting of 42,500 shares with an aggregate liquidation preference of $425,000. At December 30, 1994, 42,500 shares, represented by 17,000,000 Depositary Shares, were outstanding. At December 30, 1994, Depositary Shares held by the Corporation for market-making purposes were not material.

Dividends on the 9% Preferred Stock are cumulative from the date of original issue and are payable quarterly when declared by the authority of the Board. Total dividends declared on the 9% Preferred Stock in 1994 were $6,163. The 9% Preferred Stock is redeemable on or after December 30, 2004 at the option of the Corporation. The Corporation may redeem the 9% Preferred Stock, in whole or in part, at a redemption price equal to $10,000 per share, plus accrued and unpaid dividends (whether or not declared), to the date fixed for redemption.

Remarketed Preferred℠ Stock, Series C

The Corporation previously issued 3,000 shares of Remarketed Preferred ("RP®") stock, Series C of which 1,938 shares were outstanding as of December 30, 1994.

At the end of each dividend period, the RP stock is subject to a remarketing process. As part of the remarketing process, both the dividend period and the dividend rate may be adjusted for periods of generally seven or 49 days with a maximum dividend rate payable dependent on the credit rating assigned to the RP stock. Dividends on the RP stock are cumulative and payable when declared by the authority of the Board. Dividend rates in effect during 1994 on the RP stock ranged from 2.40% to 5.20% per annum. The maximum dividend rate on the RP stock ranges from 115% to 250% of the "AA" Composite Commercial Paper Rate based on the Standard & Poor's Ratings Group and Moody's Investors Service, Inc. credit ratings on the date on which the dividend rate is reset. Total dividends declared in 1994 on shares of RP stock were $6,391. The Corporation may redeem the RP stock, in whole or in part, on any dividend payment date at a redemption price of $100,000 per share, plus accumulated dividends.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"), a subsidiary of the Corporation, acts as one of the remarketing agents for the RP stock. As a market-maker, MLPF&S may occasionally acquire a temporary position in the RP stock. At December 30, 1994, the RP stock held by MLPF&S for the purpose of resale was not material.

Stockholder Rights Plan

The Corporation's Stockholder Rights Plan provides for the distribution of preferred purchase rights ("Rights") to common stockholders which separate from the common stock ten days following: (a) an announcement of an acquisition by a person or group ("acquiring party") of 20% or more of the outstanding common shares of the Corporation; or (b) the commencement of a tender or exchange offer for 30% or more of the common shares outstanding. One-half of a Right is attached to each outstanding share of common stock and will attach to all subsequently issued shares. The Rights entitle the holder to purchase fractions of a share ("Units") of Series A Junior Preferred Stock, par value $1.00 per share, at an exercise price of $100 per Unit. The Units are nonredeemable and have voting privileges and certain preferential dividend rights. The exercise price and the number of Units issuable are subject to adjustment to prevent dilution.

If, after the Rights have been distributed either the acquiring party holds 25% or more of the Corporation's outstanding shares or the Corporation is a party to a business combination or other specifically defined transaction, each Right (other than those held by the acquiring party) will entitle the holder to receive, upon exercise, Units of preferred stock or shares of common stock of the surviving company with a value equal to two times the exercise price of the Right. The Rights expire December 16, 1997 and are redeemable at the option of a majority of the independent directors of the Corporation at $.01 per Right at any time until the tenth day following an announcement of the acquisition of 20% or more of the Corporation's common stock.

Shares outstanding and balances for each issue of preferred stock are presented below:

	Shares Outstanding		Balance at	
	Dec. 30, 1994	Dec. 31, 1993	Dec. 30, 1994	Dec. 31, 1993
9% Cumulative Preferred Stock, Series A	42,500	–	$425,000	$ –
Remarketed Preferred Stock, Series C	1,938	1,938	193,800	193,800
Total	44,438	1,938	$618,800	$193,800

All shares of currently outstanding preferred stock constitute one and the same class and have equal rank and priority over common stockholders as to dividends and in the event of liquidation.

Common Equity

On October 11, 1993, the Board declared a two-for-one common stock split, effected in the form of a 100% dividend. The new shares were distributed on November 24, 1993 to stockholders of record on October 22, 1993. The par value of these shares remained at $1.33 1/3 per share. Accordingly, an adjustment totaling $157,553 from paid-in capital to common stock was required to preserve the par value of the post-split shares. All share and per share data presented in this Annual Report to Stockholders reflect the effect of the split.

In 1993, stockholders of the Corporation approved an increase in the authorized number of shares of common stock from 200 million to 500 million shares. In addition, the Corporation issued 1,637,314 shares of common stock in connection with certain employee benefit plans.

PER COMMON SHARE COMPUTATION

The Corporation computed earnings per common share using the modified treasury stock method ("modified method") in accordance with Accounting Principles Board Opinion No. 15. The modified method is used when the number of shares obtainable upon exercise of outstanding options, warrants, and their equivalents exceed 20% of the Corporation's outstanding common stock.

Under this method, all options, warrants, and their equivalents are assumed exercised (whether dilutive or antidilutive) with the aggregate proceeds obtained used to repurchase up to 20% of the Corporation's outstanding common stock, subject to certain limitations. If the combined effect of the assumed exercise is dilutive, all options, warrants, and their equivalents are included in the computation.

Primary earnings per common share is computed by dividing net earnings, after deducting preferred stock dividend requirements of $12,711, $5,381, and $6,339 for 1994, 1993, and 1992, respectively, by the weighted average number of common shares and common stock equivalents outstanding during each year. Shares of common stock issuable under various employee stock plans are considered common stock equivalents (incremental shares).

The weighted average number of common shares and incremental shares included in the primary and fully diluted per common share computations follow:

	1994	1993	1992
Primary:			
Weighted average common shares	195,661,000	209,276,000	207,730,000
Incremental shares	15,580,000	17,055,000	18,672,000
Total	211,241,000	226,331,000	226,402,000
Fully Diluted:			
Weighted average common shares	195,661,000	209,276,000	207,730,000
Incremental shares	16,034,000	18,204,000	19,124,000
Total	211,695,000	227,480,000	226,854,000

COMMERCIAL PAPER AND OTHER SHORT-TERM BORROWINGS

Commercial paper and other short-term borrowings at December 30, 1994 and December 31, 1993 are presented below:

	1994	1993
Commercial paper	$14,758,830	$14,895,540
Demand and time deposits	7,577,492	5,946,244
Securities loaned	2,180,186	1,047,059
Bank loans and other	1,923,137	1,325,486
Total	$26,439,645	$23,214,329

The Corporation's weighted average interest rate on commercial paper and other short-term borrowings, including repurchase agreements, was 4.74% in 1994 and 4.20% in 1993.

The weighted average interest rate on these borrowings modified through swap agreements was 4.76% and 4.18% in 1994 and 1993, respectively.

LONG-TERM BORROWINGS

Long-term borrowings at December 30, 1994 and December 31, 1993 consisted of the following:

	1994	1993
U.S. dollar-denominated fixed-rate obligations due 1995 to 2019 at interest rates ranging from 4.75% to 10.375%	$ 4,982,736	$ 5,814,146
Foreign currency-denominated fixed-rate obligations due 1995 to 2001 at interest rates ranging from 4.40% to 12.10%	725,425	684,637
U.S. dollar-denominated variable rate obligations	890,457	782,055
Foreign currency-denominated variable rate obligations	110,058	97,554
U.S. dollar-denominated medium-term notes	6,934,075	5,983,837
Foreign currency-denominated medium-term notes	1,220,632	106,671
Total	$14,863,383	$13,468,900

Rates and maturities presented are as of December 30, 1994.

Maturities of long-term borrowings at December 30, 1994 consisted of the following:

Maturities	
1995	$ 6,136,504
1996	1,466,360
1997	1,300,051
1998	722,806
1999	2,187,600
2000 and thereafter	3,050,062
Total	$14,863,383

At December 30, 1994, variable interest rates were obtained through interest rate and foreign currency swap contracts on $5,623,511 or 99% of the Corporation's $5,708,161 total U.S. dollar-denominated and foreign currency-denominated fixed-rate obligations. The effective weighted average interest rate on these fixed-rate obligations swapped into variable rate obligations was 4.54% in 1994. The Corporation's remaining fixed-rate long-term obligation totaled $84,650 and had an interest rate of 11.93% in 1994.

Included in U.S. dollar-denominated variable rate obligations are various equity-linked indexed instruments issued by the Corporation. Payments on these instruments may be linked to a specific index (e.g., S&P 500) or industry basket of stocks (e.g., telecommunications stocks). These instruments may be exchange listed or sold privately.

The effective weighted average interest rates on the Corporation's U.S. dollar-denominated variable rate

obligations and the Corporation's foreign currency-denominated variable rate obligations were 4.53% and 4.54%, respectively, in 1994. Variable interest rates are generally based on rates such as LIBOR, the "AA" Commercial Paper Composite Rate, the U.S. Treasury Bill Rate, or the Federal Funds Rate ("Fed Funds").

The effective weighted average interest rate on all medium-term notes was 4.40% in 1994. Maturities of medium-term notes currently range from nine months to 30 years from the date of issue.

Certain long-term borrowing agreements contain provisions whereby the borrowings are redeemable at the option of the holder at specified dates prior to maturity. Pursuant to these provisions, long-term borrowings that may be redeemed prior to maturity in 1995 and 1996 total $159,500 and $24,764, respectively. Management believes, however, that a significant portion of such borrowings may remain outstanding beyond their earliest redemption date.

Subsequent to year-end 1994 and through February 21, 1995, long-term borrowings, net of new issuances and resales, decreased approximately $417,770. (See Financing and Other Non-Trading Activities Note to the Consolidated Financial Statements.)

INCOME TAXES

Income tax provisions (benefits) on earnings before the cumulative effect of changes in accounting principles consisted of:

		1994	1993	1992
Federal:	Current	$679,816	$ 877,903	$435,093
	Deferred	(149,925)	(274,517)	(59,007)
State and Local:	Current	158,287	376,085	252,498
	Deferred	2,332	(57,760)	(20,868)
Foreign:	Current	4,603	163,690	65,271
	Deferred	17,730	(54,952)	(4,003)
Total		$712,843	$1,030,449	$668,984

A reconciliation of the statutory Federal income tax to the Corporation's income tax provision for earnings before the cumulative effect of accounting changes follows:

	1994	1993	1992
Federal income tax at statutory rates	$605,361	$ 848,683	$551,272
State and local income taxes, net	104,402	206,911	152,876
Tax-exempt interest	(18,351)	(16,228)	(13,706)
Dividends received deduction	(17,284)	(8,249)	(23,730)
Foreign operations	22,663	2,704	5,636
Pension plan transaction	14,445	13,705	14,885
Other, net	1,607	(17,077)	(18,249)
Total	$712,843	$1,030,449	$668,984

The Omnibus Budget Reconciliation Act of 1993 increased the corporate statutory tax rate to 35.0% retroactive to January 1, 1993.

For financial reporting purposes, the Corporation had no unrecognized net operating loss or alternative minimum tax benefit carryforwards at December 30, 1994.

Deferred income taxes are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. These temporary differences result in taxable or deductible amounts in future years. Details of the Corporation's deferred tax assets and liabilities follow:

	1994	1993	1992
Deferred tax assets:			
Valuation of inventory, investments, and receivables	$ 638,448	$658,768	$441,656
Deferred compensation	192,245	91,200	114,390
Other	337,449	246,682	148,047
Subtotal	1,168,142	996,650	704,093
Valuation allowance	–	(2,500)	–
Deferred tax asset net of valuation allowance	1,168,142	994,150	704,093
Deferred tax liabilities:			
Lease transactions	112,956	74,445	141,149
Accelerated tax depreciation	92,048	113,578	137,881
Unrealized gains on trading inventory	29,007	35,707	41,019
Other	73,398	87,409	136,461
Subtotal	307,409	311,139	456,510
Net deferred tax asset	$ 860,733	$683,011	$247,583

Income tax benefits of $5,095, $75,150, and $114,487 were allocated to stockholders' equity related to employee compensation transactions for 1994, 1993, and 1992, respectively.

Earnings before income taxes include approximately $48,000, $395,000, and $130,000 of earnings attributable to foreign entities for 1994, 1993, and 1992, respectively. Cumulative undistributed earnings of foreign subsidiaries were approximately $674,000 at December 30, 1994. No deferred Federal income taxes have been provided for the undistributed earnings as these earnings have been, and will continue to be, reinvested in the Corporation's foreign operations. Assuming utilization of foreign tax credits, the Corporation estimates that approximately $86,000 of Federal income taxes and $28,000 of foreign withholding taxes would be incurred on the repatriation of the foreign subsidiaries' earnings.

REVOLVING CREDIT FACILITIES

The Corporation has obtained committed, unsecured, revolving credit facilities aggregating $5,330,000 under agreements with 85 banks. The agreements contain covenants that require, among other things, that the Corporation maintain specified levels of net worth, as defined in the agreements, on

the date of an advance. To date, there have never been any borrowings under current or prior revolving credit facilities.

The credit quality, amounts, and terms of the credit facilities are continually monitored and modified as warranted by business conditions. Under the existing agreements, the credit facilities mature as follows: $1,060,000 in March 1995; $1,325,000 in May 1995; $1,230,000 in June 1995; and $1,715,000 in October 1995. At maturity, the Corporation may convert amounts then borrowed, if any, into term loans which would mature in two years.

Regulatory Requirements and Dividend Restrictions

MLPF&S, a registered broker-dealer, is subject to Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 ("SEA"). Under the alternative method permitted by this rule, the minimum required net capital, as defined, shall not be less than 2% of aggregate debit items arising from customer transactions. At December 30, 1994, MLPF&S's regulatory net capital of $1,422,766 was 12% of aggregate debit items, and its regulatory net capital in excess of the minimum required was $1,178,873.

In addition to amounts presented in the accompanying Consolidated Balance Sheets as cash and securities segregated for regulatory purposes or deposited with clearing organizations, securities with a market value of $168,148, primarily collateralizing resale agreements, have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to the Reserve Formula requirements of SEA Rule 15c3-3.

Merrill Lynch Government Securities Inc. ("MLGSI"), a primary dealer in U.S. Government securities and a subsidiary of the Corporation, is subject to the Capital Adequacy Rule under the Government Securities Act of 1986. This rule requires dealers to maintain liquid capital in excess of market and credit risk, as defined, by 20% (a 1.2-to-1 capital-to-risk standard). At December 30, 1994, MLGSI's liquid capital of $931,869 was 307% of its total market and credit risk, and liquid capital in excess of the minimum required was $568,117.

Merrill Lynch International Limited ("MLIL") is a United Kingdom registered broker-dealer and is subject to capital requirements of the Securities and Futures Authority ("SFA"). Regulatory capital, as defined, must exceed the total financial resources requirement of the SFA. At December 30, 1994, MLIL's regulatory capital was $1,325,054, and exceeded the minimum requirement by $382,422.

The Corporation's insurance subsidiaries are subject to various regulatory restrictions that limit the amount available for distribution as dividends. As of December 30, 1994, $489,513, representing 85% of the insurance subsidiaries' net assets, was unavailable for distribution to the Corporation.

In addition, over 40 U.S. and non-U.S. subsidiaries are subject to regulatory requirements promulgated by the regulatory and exchange authorities of the countries in which they operate. These regulatory restrictions may limit the amounts that these subsidiaries can pay in dividends or advance to the Corporation. At December 30, 1994, restricted net assets of all subsidiaries were $4,190,608. In addition, to satisfy rating agency standards, a subsidiary of the Corporation must also meet certain minimum capital requirements. At December 30, 1994, this minimum capital requirement was $368,111.

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock; and (b) the governing provisions of the Delaware General Corporation Law.

Employee Benefit Plans

The Corporation provides retirement benefits to its employees worldwide through defined contribution plans, a group annuity contract, and international defined benefit plans. The Corporation reserves the right to amend or terminate these plans at any time.

Defined Contribution Plans

The U.S. defined contribution plans consist of the Retirement Accumulation Plan ("RAP"), the Employee Stock Ownership Plan ("ESOP"), and the 401(k) Savings & Investment Plan ("SIP"). The RAP, ESOP, and SIP cover substantially all U.S. employees who have met the age and service requirements.

In 1989, the Corporation established the RAP and the ESOP, collectively known as the "Retirement Program," for the benefit of eligible employees. An employee becomes eligible for participation and is automatically enrolled in the Retirement Program as of the enrollment date coincident with, or next following, the attainment of age 21 and the completion of one year of service. A separate retirement account is maintained for each participant. Participants become vested upon completion of five years of service or upon attaining age 65. Vesting also occurs immediately upon death or disability.

In 1989, the Corporation sold 24,341,470 shares of common stock to the ESOP trust. The ESOP trust acquired the shares with residual funds from a terminated defined benefit pension plan ("Reversion Shares") and loan proceeds from a subsidiary of the Corporation ("Leveraged Shares").

The Corporation credits a participant's account and records pension expense in conjunction with the Retirement Program based on years of service, age, and eligible compensation. Allocations to participants' accounts of Leveraged Shares, Reversion Shares, and cash, if necessary, are made quarterly to fund this expense. Quarterly ESOP allocations are based on participants' receipt of Basic and Supplemental Credits under the Retirement Program, multiplied by the fair market value of the shares released. In addition, certain participants are eligible to receive Additional Supplemental Credits which are provided only through cash contributions to the RAP. Leveraged and Reversion Shares are released in accordance with the terms of the ESOP. If the fair market value of ESOP shares released does not fund the Retirement Program liability, cash contributions are made to the RAP. Generally, only cash contributions are deductible for tax

purposes. Reversion Shares held in the ESOP are being allocated to participants' accounts over a period of not more than eight years, ending in 1997. Leveraged Shares held in the ESOP are allocated to participants' accounts as principal on the loan is repaid. The loan to the ESOP trust, due September 5, 1999, bears interest at 9.1% per annum, with principal and interest payable quarterly upon receipt of dividends on certain shares of common stock or other cash contributions.

ESOP shares are considered allocated, committed, or unallocated. Allocated shares have been assigned to individual participants' accounts, committed shares will be released at a future scheduled date and are not legally released at the date of the balance sheet, and unallocated shares have not been released, committed, or allocated to participants' accounts. As of December 30, 1994, the ESOP had 13,082,396 allocated, 387,539 committed, and 6,427,091 unallocated Reversion Shares. In addition, the ESOP had 1,812,906 allocated, 92,958 committed, and 2,538,580 unallocated Leveraged Shares. The unallocated portion of shares purchased with the remaining residual funds of $101,227 from the terminated defined benefit pension plan and the $39,835 outstanding loan to the ESOP trust, which is included in employee stock transactions, are included as reductions to stockholders' equity.

Interest incurred on the ESOP debt during 1994, 1993, and 1992 amounted to $3,977, $4,675, and $5,119, respectively. Dividends on all Leveraged and unallocated and committed Reversion ESOP shares used for debt service amounted to $10,531, $10,044, and $9,678 in 1994, 1993, and 1992, respectively. Dividends on allocated Reversion ESOP shares are credited to participants' accounts. Compensation costs funded with ESOP shares amounted to $109,463, $109,655, and $77,451 in 1994, 1993, and 1992, respectively.

Employees can participate in the SIP by contributing, on a tax deferred basis, up to 15% of their eligible compensation but not more than the maximum annual amount allowed by law. The Corporation's contributions are equal to one-half of the first 4% of each participant's eligible compensation contributed to the SIP, up to a maximum of fifteen hundred dollars annually. No corporate contributions are made for participants who are also Employee Stock Purchase Plan participants.

Group Annuity Contract

In the U.S., the Corporation has purchased a group annuity contract from Metropolitan Life Insurance Company ("Metropolitan") which guarantees the payment of benefits vested under a defined benefit plan terminated in accordance with the applicable provisions of the Employee Retirement Income Security Act of 1974. At December 30, 1994, a substantial portion of the assets of Metropolitan supporting the annuity were invested in U.S. Government and agencies securities. The Corporation, under a supplemental agreement, may be responsible for, or benefit from, actuarial experience and investment performance of these annuity assets.

International Defined Benefit Plans

Employees of certain non-U.S. subsidiaries participate in various local plans. These pension plans provide benefits that are generally based on years of credited service and a percentage of the employee's eligible compensation during the final years of employment. The Corporation's funding policy has been to contribute annually the amount necessary to satisfy local funding standards.

Pension Plan Cost and Funded Status

Pension cost includes the following components:

	1994	1993	1992
Defined benefit plans[1]:			
Service cost for benefits earned during the year[2]	$ 16,345	$ 12,328	$ 11,333
Interest cost on projected benefit obligation	91,529	89,115	84,366
Actual return on plan assets	146,134	(281,022)	(107,549)
Deferral and amortization of unrecognized items	(243,702)	188,700	21,441
Total defined benefit plan cost	10,306	9,121	9,591
Defined contribution plan cost	164,025	146,148	133,264
Total pension cost[3]	$174,331	$155,269	$142,855

(1) *The following actuarial assumptions were used in calculating the defined benefit cost (credit) and benefit obligations. Weighted average rates as of the beginning of the year are:*

	1995	1994	1993
Discount rate	8.1%	6.7%	7.9%
Rate of compensation increase (not applicable to terminated plan)	6.0%	5.9%	6.3%
Expected long-term rate of return on plan assets	8.2%	6.7%	7.6%

(2) *The Corporation calculated service cost using the projected unit credit method based on years of service to date.*

(3) *Total pension cost excludes supplemental retirement and other benefit plan costs.*

The funded status of the defined benefit plans (including the terminated plan) follows:

	1994		1993	
	Pension plans in which:		Pension plans in which:	
	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets	Assets Exceeded Accumulated Benefits	Accumulated Benefits Exceeded Assets
Actuarial present value of:				
Vested accumulated benefit obligation	$(1,189,096)	$(32,826)	$(1,266,994)	$(33,072)
Non-vested accumulated benefit obligation	(1,817)	(4,024)	(3,903)	(4,877)
Accumulated benefit obligation	(1,190,913)	(36,850)	(1,270,897)	(37,949)
Effect of assumed increase in compensation levels	(13,291)	(18,369)	(17,430)	(17,309)
Projected benefit obligation	(1,204,204)	(55,219)	(1,288,327)	(55,258)
Plan assets at fair value	1,284,467	14,630	1,445,016	12,503
Plan assets in excess of (less than) projected benefit obligation	80,263	(40,589)	156,689	(42,755)
Unrecognized net liability at transition	3,542	2,707	3,460	1,368
Unrecognized net loss (gain)	73,872	3,335	(13,526)	13,224
Unrecognized prior service cost (benefit)	4,369	(1,612)	(2,833)	(1,594)
Prepaid (accrued) benefit cost	$ 162,046	$(36,159)	$ 143,790	$(29,757)

Supplemental Retirement and Other Benefit Plans

The Corporation also has supplemental retirement and other benefit plans. The unfunded projected benefit obligation was $7,987 and $8,959 in 1994 and 1993, respectively. Supplemental retirement and other benefit plan costs were $1,408, $1,469, and $1,305 in 1994, 1993, and 1992, respectively.

Postretirement Benefits Other Than Pensions

The Corporation provides health and life insurance benefits to retired employees. The health care component is contributory, with retiree contributions adjusted periodically. The life insurance component of the plan is noncontributory. The accounting for health care anticipates future changes in cost-sharing provisions. The Corporation pays claims as incurred. Full-time employees of the Corporation become eligible for these benefits upon attainment of age 55 and completion of ten years of service. The Corporation reserves the right to amend or terminate these programs at any time. As of December 30, 1994, the plan had not been funded. Net periodic postretirement benefit expense included the following components:

	1994	1993
Service cost	$ 3,947	$ 4,593
Amortization of unrecognized gain	(235)	–
Interest cost on accumulated postretirement benefit obligation	9,074	11,254
Total	$12,786	$15,847

The amounts recognized for the Corporation's postretirement benefit plans follow:

	1994	1993
Accumulated postretirement benefit obligation:		
Retirees	$ 52,486	$ 58,597
Fully eligible active plan participants	34,627	36,769
Other active plan participants	40,749	42,254
Subtotal	127,862	137,620
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	31,660	16,900
Postretirement benefits accrued liability	$159,522	$154,520

The following actuarial assumptions were used in calculating the postretirement benefit cost and obligations. Rates as of the beginning of the year are:

	1995	1994
Discount rate	8.2%	6.8%
Health care cost trend rates (assumed to decrease gradually until the year 2000 and remain constant thereafter):		
Pre-65	11.0%–6.0%	12.0%–5.5%
Post-65	9.0%–6.0%	10.0%–4.5%

The assumed health care cost trend rate has a significant effect on the amounts reported above. Increasing the assumed trend rate by one percentage point per year would increase the accumulated postretirement benefit obligation as of December 30, 1994 and December 31, 1993 by $16,807 and $19,312, respectively, and increase the aggregate of service and interest costs for 1994 and 1993 by $1,948 and $2,659, respectively.

Postemployment Benefits

The Corporation provides certain postemployment benefits for employees on extended leave due to injury or illness and for terminated employees. The Corporation is mandated by state regulation to provide reimbursements for medical costs, rehabilitation costs, and certain lost wages to employees in the event of work-related illness or injury. Employees that are disabled due to non-work-related illness or injury are entitled to salary continuation, medical coverage, and life insurance. Federal law requires the Corporation to offer continued medical coverage to all terminated employees for up to 18 months. The Corporation also provides severance benefits to terminated employees. Full-time employees are eligible for all of these benefits as of their first day of employment. Nevertheless, the Corporation reserves the right to amend or terminate its internal plans at any time. The Corporation funds these benefit requirements through a combination of self-insured and insured plans.

The Corporation recognized $75,703 and $79,199 in 1994 and 1993, respectively (excluding the 1993 cumulative effect adjustment), of postemployment benefits expense, which included severance costs for terminated employees of $65,763 in 1994 and $59,500 in 1993. Although all full-time employees are eligible for severance benefits, no additional amounts were accrued as of December 30, 1994 since future severance costs are not reasonably estimable.

EMPLOYEE STOCK PLANS

The Corporation's primary employee incentive stock plans are: (i) the Merrill Lynch & Co., Inc. Long-Term Incentive Compensation Plan ("LTICP"); (ii) the Merrill Lynch & Co., Inc. Equity Capital Accumulation Plan ("ECAP"); and (iii) the Financial Consultant Capital Accumulation Award Plan ("FCCAAP"). The Corporation also offers its employees the option of purchasing shares of common stock under the Merrill Lynch & Co., Inc. Employee Stock Purchase Plan ("ESPP").

LTICP and ECAP Restricted Shares and Units

LTICP and ECAP provide for grants of equity and equity-related instruments to certain key employees of the Corporation. LTICP provides for the issuance of, among other instruments, Restricted Shares and Restricted Units. ECAP provides for the issuance of, among other instruments, Restricted Shares. Restricted Shares and Restricted Units are restricted from being sold, transferred, or assigned until the end of a restricted period and are subject to forfeiture during a vesting period for LTICP grants or the restricted period for ECAP grants. Restricted Shares, which may be issued under LTICP and ECAP, are shares of common stock of the Corporation and are subject to identical restrictions. Restricted Units, which are issued under LTICP, are also subject to these restrictions and are payable in cash. Each Restricted Unit is deemed equivalent in fair market value to one share of common stock of the Corporation. Restricted Shares are entitled to the same dividends as other shares of common stock of the Corporation. Amounts equivalent to cash dividends payable on Restricted Shares are payable to holders of Restricted Units. LTICP also allows for the issuance of Nonqualified Stock Options (discussion to follow), Incentive Stock Options, Performance Shares, Performance Units, Stock Appreciation Rights, and other ML & Co. Securities. As of December 30, 1994, no grants of these additional instruments, other than Nonqualified Stock Options, had been granted under LTICP. ECAP also provides for the issuance of Performance Shares. At December 30, 1994 and December 31, 1993, there were no ECAP Performance Shares outstanding.

Up to 80,000,000 shares of the Corporation's common stock and 80,000,000 units payable in cash had been authorized for issuance under LTICP and up to 26,200,000 shares of the Corporation's common stock had been authorized for issuance under ECAP. At December 30, 1994, there were 25,818,379 shares available (net of shares reserved for issuance upon the exercise of stock options) for issuance under LTICP. At December 30, 1994, there were 3,342,439 shares available for issuance to employees under ECAP. The activity with respect to Restricted Shares and Restricted Units for LTICP and Restricted Shares for ECAP for the years ended December 30, 1994 and December 31, 1993 follows:

	LTICP		ECAP
	Restricted Shares	Restricted Units	Restricted Shares
Outstanding, beginning of 1993	4,918,230	5,083,318	6,962,698
Granted–1993	1,720,818	1,765,306	67,638
Paid, forfeited, or released from contingencies	(4,906,894)	(4,950,356)	(4,938,546)
Outstanding, end of 1993	1,732,154	1,898,268	2,091,790
Granted–1994	1,355,638	1,495,948	6,360
Paid, forfeited, or released from contingencies	(136,991)	(180,822)	(157,654)
Outstanding, end of 1994	2,950,801	3,213,394	1,940,496

In 1995, 1,677,394 and 1,692,028 LTICP Restricted Shares and Units, respectively, and 39,588 ECAP Restricted Shares were granted to eligible employees.

Stock Options

LTICP also provides for the issuance of Nonqualified Stock Options. Stock Options granted in 1989 through 1994 generally become exercisable over four years in equal installments commencing one year after the date of grant. The exercise price of these options is equal to 100% of the fair market value of a share of common stock on the date of grant. The Stock Options expire ten years after their grant date.

At December 30, 1994, 14,301,246 options were exercisable at prices ranging from $10.6875 to $40.6250. During 1994, the fair market value of shares acquired by the exercise of Stock Options ranged from $33.000 to $44.625. The activity for Nonqualified Stock Options under LTICP for the years ended December 30, 1994 and December 31, 1993 was as follows:

	Shares Subject to Option	
	1994	1993
Balance, beginning of year	27,004,771	27,408,324
Granted	4,527,100	5,862,666
Exercised	(2,649,411)	(5,742,374)
Forfeited or surrendered	(474,527)	(523,845)
Balance, end of year	28,407,933	27,004,771

In January 1995, eligible participants were granted Nonqualified Stock Options for 5,330,212 common shares.

FCCAAP

Under FCCAAP and its predecessor plans, eligible employees in the Corporation's private client group are granted awards generally based upon their prior year's performance. Payment for an award is contingent upon continued employment for a period of time and is subject to forfeiture during that period. The award is payable ten years from the date of grant in either common shares of the Corporation or in cash, whichever is greater, based on the market value of the Corporation's common stock. Although the first grant is scheduled to be paid in 1996, under certain circumstances partially vested grants may be partially paid, but only in cash, prior to the scheduled payment dates.

A total of 20,222,830 shares of the Corporation's common stock are authorized for issuance under the FCCAAP. Shares of common stock issuable under the FCCAAP and predecessor plans may only be from shares held as treasury stock. At December 30, 1994, shares subject to awards made to eligible employees totaled 14,302,494 under such plans, with 5,589,439 shares available for issuance.

ESPP

ESPP allows eligible employees to invest from 1% to 10% of their eligible compensation to purchase the Corporation's common stock at a price equal to 85% of its fair market value. These purchases are made on four quarterly investment dates through payroll deductions. Up to 25,000,000 shares of the Corporation's common stock have been authorized for issuance under ESPP.

The activity in ESPP for the two most recent fiscal years was as follows:

	ESPP Shares	
	1994	1993
Available, beginning of year	6,930,356	7,914,788
Purchased through plan	(1,072,907)	(984,432)
Available, end of year	5,857,449	6,930,356

Incentive Equity Purchase Plan

The Incentive Equity Purchase Plan ("IEPP") allows selected employees to purchase shares of the Corporation's common stock ("Book Value Shares") at a price equal to book value per share (as of a valuation date preceding the purchase date). These shares, once held for six months, may be sold back to the Corporation at book value (adjusted for certain non-recurring events) as of a date preceding the sale, or exchanged at any time for a specified number of freely transferable shares of common stock of the Corporation, the number of which is determined by the ratio of book value to market value at the time of the purchase. Up to 30,000,000 shares of the Corporation's common stock have been authorized for issuance under IEPP. At December 30, 1994, 23,967,799 shares of the Corporation's common stock were available for purchase under IEPP. Book Value Shares outstanding as of December 30, 1994 and December 31, 1993 were 1,372,700 and 1,464,900, respectively. Subsequent to year-end, the Corporation amended IEPP by reducing the remaining number of shares authorized to zero. In addition, Book Value Shares surrendered under IEPP, including Book Value Shares resold to the Corporation and any net difference between Book Value Shares surrendered and market shares received, may not be reused under IEPP. No further offerings under IEPP will be made; however, Book Value Shares outstanding under IEPP remain unaffected by the amendment.

COMMITMENTS AND CONTINGENCIES

Litigation

There are numerous civil actions, arbitration proceedings, and claims pending against the Corporation as of December 30, 1994, some of which involve claims for substantial amounts.

In addition, on January 12, 1995, an action was commenced in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court") by Orange County, California (the "County") and The Orange County Investment Pools (the "Pools"), both of which filed bankruptcy petitions in the Bankruptcy Court on December 6, 1994, against the Corporation and certain of its subsidiaries in connection with the Corporation's business activities with the County.

The County and the Pools seek relief totaling in excess of $2 billion in connection with various securities transactions between the County and/or the Pools and the Corporation

and its subsidiaries. The complaint alleges, among other things, that these transactions violated California law and should be adjudged null and void, that the Corporation and its subsidiaries violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and that the Corporation and its subsidiaries breached a fiduciary duty owed to the County and/or the Pools.

In addition, other actions have been brought against the Corporation and/or certain of its officers, directors, and employees and certain of its subsidiaries in the United States District Court for the Central District of California, the United States District Court for the Southern District of New York, and in the state courts in California and New York. These include class actions and stockholder derivative actions brought by persons alleging harm to themselves or to the Corporation arising out of the Corporation's dealings with the County and the Pools, or from the purchase of debt instruments issued by the County that were underwritten by the Corporation's subsidiary, MLPF&S.

Although the ultimate outcome of these matters cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the resolution of these matters will not have a material adverse effect on the consolidated financial statements of the Corporation contained herein. Item 3, "Legal Proceedings," in the Corporation's 1994 Annual Report on Form 10-K, which is unaudited and available upon request after filing, contains additional information concerning pending lawsuits.

Leases

The Corporation has entered into various noncancelable long-term lease agreements for premises and equipment that expire through 2024, including the World Financial Center ("WFC") headquarters. The Corporation has also entered into various noncancelable short-term lease agreements which are primarily monthly commitments of less than one year under equipment leases. Future minimum rental commitments with initial or remaining noncancelable lease terms exceeding one year are presented below:

	WFC	Other	Total
Minimum Rental Commitments:			
1995	$ 124,553	$181,826	$ 306,379
1996	$ 125,067	$174,137	$ 299,204
1997	$ 125,580	$156,350	$ 281,930
1998	$ 129,766	$139,735	$ 269,501
1999	$ 142,503	$125,746	$ 268,249
Thereafter	$2,303,293	$621,554	$2,924,847

Total minimum rental commitments have not been reduced by $1,086,576 of minimum sublease rentals to be received in the future under noncancelable subleases.

Rent expense after sublease revenue for each of the last three years is presented below:

	1994	1993	1992
Rent expense	$394,782	$412,623	$416,692
Less: sublease revenue	(78,634)	(60,239)	(55,988)
Net rent expense	$316,148	$352,384	$360,704

Other Commitments

In the normal course of business, the Corporation enters into when-issued transactions and underwriting commitments. Settlement of these transactions as of December 30, 1994, would not have a material effect on the consolidated financial condition of the Corporation.

In the normal course of business, the Corporation obtains letters of credit to satisfy various collateral requirements in lieu of the Corporation depositing securities or cash. A standby letter of credit represents the guarantee of an obligation to a beneficiary on the part of an issuer. Letters of credit aggregated $1,161,093 at December 30, 1994.

The Corporation provides an investment certificate program for Financial Consultants. Under this program, Financial Consultants meeting minimum production and asset gathering criteria are issued an investment certificate with a face amount of $100. Such certificates mature ten years from date issued and are payable if certain performance requirements are achieved. Failure to achieve such performance requirements and to be continuously employed by the Corporation for the ten-year period results, with certain exceptions, in the certificates expiring. The certificates bear interest commencing with the date the performance requirements are achieved. Financial Consultants who do not initially meet the eligibility requirements become eligible to receive similar certificates upon meeting such requirements. As of December 30, 1994, the Corporation had $147,372 accrued under this plan.

The Corporation has service agreements with providers of communications and data processing services. Under the terms of these agreements, the Corporation receives various communications and market data services. As of December 30, 1994, minimum fee commitments under these contracts aggregated $54,600.

INDUSTRY AND GLOBAL OPERATIONS

The Corporation operates principally in the financial services industry and services individual and institutional clients. These services, due to certain legal requirements, are conducted through various subsidiaries including those operating as brokers and dealers, insurance companies, and banks.

The Corporation operates in both international and domestic markets. The Corporation's international business activities operate through regional offices in the Americas, including Latin America and Canada; Europe and the Middle

East; and Asia Pacific. In Canada, the Corporation is a broker for securities and commodities and a market-maker for bonds and money market instruments. The Corporation also provides investment banking and research for Canadian customers.

The Latin American region provides international banking, brokerage, and trust services and has been instrumental in the privatization of many Latin American companies. Europe and Middle Eastern operations offer international investment and private banking services, research, and dealer services in Eurobonds, derivatives, equity and fixed-income securities, futures, commodity contracts, and options.

The Corporation's Asia Pacific operations conduct business throughout various countries including Japan, Australia, Hong Kong, Singapore, and China. The Corporation has exchange memberships in the region's major financial centers. Traditional retail and institutional services are provided in virtually all locations.

Although no one method of allocating revenues, expenses, and assets is completely precise, the principal methodology used in preparing international data set forth below includes the following: (i) commission revenues are recorded at the location of the sales force; (ii) trading revenues are principally recorded at the location of the trader; (iii) investment banking revenues are recorded at the location of the client; and (iv) asset management and portfolio service fees are recorded at the location of the fund manager. Earnings before income taxes include the allocation of certain shared expenses among regions. In addition, intercompany transfers are based primarily on service agreements.

The information presented below, in management's judgment, provides a reasonable representation of each region's contribution to the consolidated amounts.

Global Operations	1994	1993	1992	1994	1993	1992
(In Millions)	Total Revenues			Net Revenues		
Canada and Latin America	$ 617	$ 526	$ 378	$ 333	$ 377	$ 259
Europe and Middle East	3,464	3,111	1,867	1,134	1,358	953
Asia Pacific	963	879	374	554	683	309
Subtotal	5,044	4,516	2,619	2,021	2,418	1,521
United States	13,754	13,475	11,685	7,703	9,309	7,833
Eliminations	(565)	(1,403)	(891)	(99)	(1,169)	(777)
Total	$18,233	$16,588	$13,413	$ 9,625	$ 10,558	$ 8,577
	Earnings Before Income Taxes			Total Assets		
Canada and Latin America	$ 137	$ 139	$ 89	$ 4,216	$ 5,658	$ 2,145
Europe and Middle East	176	481	181	44,297	37,107	15,645
Asia Pacific	75	191	(3)	11,389	8,546	2,865
Subtotal	388	811	267	59,902	51,311	20,655
United States	1,342	1,614	1,354	108,147	106,132	88,835
Eliminations	–	–	–	(4,300)	(4,533)	(2,466)
Total	$ 1,730	$ 2,425	$ 1,621	$163,749	$152,910	$107,024

Deloitte & Touche LLP

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Merrill Lynch & Co., Inc.:

We have audited the accompanying consolidated balance sheets of Merrill Lynch & Co., Inc. and subsidiaries as of December 30, 1994 and December 31, 1993 and the related statements of consolidated earnings, changes in consolidated stockholders' equity and consolidated cash flows for each of the three years in the period ended December 30, 1994. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation and its subsidiaries at December 30, 1994 and December 31, 1993, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 1994 in conformity with generally accepted accounting principles.

As discussed in the note to the consolidated financial statements entitled "Accounting Changes," in 1993 the Corporation and its subsidiaries changed their method of accounting for postemployment benefits and their method of accounting for certain investments in debt and equity securities to conform with Statements of Financial Accounting Standards No. 112 and No. 115, respectively, and in 1992 changed their method of accounting for postretirement benefits other than pensions and their method of accounting for income taxes to conform with Statements of Financial Accounting Standards No. 106 and No. 109, respectively.

Deloitte & Touche LLP

New York, New York
February 27, 1995

FIVE-YEAR FINANCIAL SUMMARY

(Dollars in Thousands)	1990		1991		1992		1993		1994	
									Year Ended Last Friday in December	
Revenues	*(52 Weeks)*		*(52 Weeks)*		*(52 Weeks)*		*(53 Weeks)*		*(52 Weeks)*	
Commissions										
Listed securities	$ 840,650	7.6%	$ 1,064,977	8.6%	$ 1,147,142	8.6%	$ 1,404,110	8.5%	$ 1,361,144	7.5%
Mutual funds	389,524	3.5	519,089	4.2	667,519	5.0	846,213	5.1	878,741	4.8
Commodities	144,916	1.3	146,704	1.2	142,509	1.1	178,733	1.1	216,613	1.2
Money market instruments	189,963	1.7	175,980	1.4	190,525	1.4	165,028	1.0	109,278	0.6
Other	204,101	1.8	259,551	2.1	274,389	2.0	300,144	1.8	304,765	1.7
Total	1,769,154	15.9	2,166,301	17.5	2,422,084	18.1	2,894,228	17.5	2,870,541	15.8
Interest and Dividends	5,944,706	53.3	5,761,061	46.7	5,806,710	43.3	7,099,155	42.8	9,577,561	52.5
Principal Transactions										
Interest rate and currency swaps	170,430	1.5	239,895	2.0	389,460	2.9	605,293	3.7	749,167	4.1
Equities and equity derivatives	332,380	3.0	533,763	4.3	614,445	4.6	870,603	5.2	626,293	3.4
Taxable fixed-income	594,970	5.4	818,841	6.6	735,724	5.5	963,847	5.8	462,450	2.6
Municipals	258,370	2.3	246,605	2.0	268,020	2.0	322,543	1.9	387,735	2.1
Foreign exchange and commodities	102,831	0.9	66,624	0.5	158,076	1.1	158,153	1.0	109,279	0.6
Total	1,458,981	13.1	1,905,728	15.4	2,165,725	16.1	2,920,439	17.6	2,334,924	12.8
Investment Banking										
Underwriting	534,835	4.8	1,020,310	8.2	1,308,787	9.8	1,646,960	9.9	988,454	5.4
Strategic services	260,609	2.3	155,682	1.3	175,280	1.3	184,293	1.1	251,011	1.4
Total	795,444	7.1	1,175,992	9.5	1,484,067	11.1	1,831,253	11.0	1,239,465	6.8
Asset Management and Portfolio Service Fees	815,739	7.3	1,003,904	8.1	1,252,829	9.3	1,557,778	9.4	1,739,452	9.5
Other	363,205	3.3	339,826	2.8	281,253	2.1	285,324	1.7	471,148	2.6
Total Revenues	11,147,229	100.0	12,352,812	100.0	13,412,668	100.0	16,588,177	100.0	18,233,091	100.0
Interest Expense	5,363,900	48.1	5,106,344	41.3	4,835,267	36.0	6,029,947	36.4	8,608,570	47.2
Net Revenues	5,783,329	51.9	7,246,468	58.7	8,577,401	64.0	10,558,230	63.6	9,624,521	52.8
Non-Interest Expenses										
Compensation and benefits	3,077,485	53.2	3,867,849	53.4	4,364,454	50.9	5,255,258	49.8	4,951,839	51.5
Occupancy	519,156	9.0	473,562	6.5	477,754	5.6	572,936	5.4	436,168	4.5
Communications and equipment rental	375,432	6.5	356,850	4.9	366,161	4.3	385,809	3.6	432,214	4.5
Depreciation and amortization	289,361	5.0	276,125	3.8	281,228	3.3	308,499	2.9	325,121	3.4
Advertising and market development	225,712	3.9	249,844	3.5	301,146	3.5	376,881	3.6	374,619	3.9
Professional fees	233,565	4.0	235,344	3.3	256,887	3.0	290,324	2.7	367,003	3.8
Brokerage, clearing, and exchange fees	234,031	4.1	239,828	3.3	277,166	3.2	280,712	2.7	337,512	3.5
Other	546,259	9.4	529,648	7.3	631,216	7.3	663,003	6.3	670,441	6.9
Total Non-Interest Expenses	5,501,001	95.1	6,229,050	86.0	6,956,012	81.1	8,133,422	77.0	7,894,917	82.0
Earnings Before Income Taxes and Cumulative Effect of Changes in Accounting Principles	282,328	4.9	1,017,418	14.0	1,621,389	18.9	2,424,808	23.0	1,729,604	18.0
Income Tax Expense	90,472	1.6	321,301	4.4	668,984	7.8	1,030,449	9.8	712,843	7.4
Earnings Before Cumulative Effect of Changes in Accounting Principles	191,856	3.3	696,117	9.6	952,405	11.1	1,394,359	13.2	1,016,761	10.6
Cumulative Effect of Changes in Accounting Principles, Net of Income Taxes	–	–	–	–	(58,580)	(.7)	(35,420)	(.3)	–	–
Net Earnings	$ 191,856	3.3%	$ 696,117	9.6%	$ 893,825	10.4%	$ 1,358,939	12.9%	$ 1,016,761	10.6%

**Revenues and Interest Expense are presented as a percentage of Total Revenues. Non-Interest Expenses, Cumulative Effect of Changes in Accounting Principles, and Earnings are presented as a percentage of Net Revenues.*

Selected statistical data for the last five fiscal years is presented for informational purposes below.

(Dollars in Millions)	*Year Ended Last Friday in December* 1990	1991	1992	1993	1994
	(52 Weeks)	*(52 Weeks)*	*(52 Weeks)*	*(53 Weeks)*	*(52 Weeks)*
Private Client Accounts *(a)*:					
Assets in Worldwide Private Client Accounts	$377,000	$440,000	$487,000	$557,000	$568,000
Assets in Domestic Private Client Accounts	$361,000	$422,000	$463,000	$527,000	$537,000
Assets under Professional Management:					
Money Markets	$ 66,000	$ 67,000	$ 67,000	$ 66,000	$ 67,000
Equities	9,000	12,000	16,000	30,000	37,000
Fixed Income	20,000	27,000	35,000	42,000	36,000
Private Portfolio	8,000	11,000	13,000	17,000	20,000
Insurance	7,000	7,000	8,000	6,000	4,000
Subtotal	110,000	124,000	139,000	161,000	164,000
ML Consults	2,100	5,200	12,200	16,900	14,400
Total	$112,100	$129,200	$151,200	$177,900	$178,400
Underwriting *(b)*:					
Global Debt and Equity:					
Volume	$ 60,600	$110,500	$151,000	$193,200	$137,800
Market Share	11.5%	12.7%	13.0%	12.8%	12.6%
U.S. Domestic Debt and Equity:					
Volume	$ 55,000	$100,300	$140,600	$173,800	$117,000
Market Share	17.5%	17.0%	16.5%	16.4%	16.5%
Full-Time Employees:					
Domestic	35,323	34,721	36,111	37,513	38,726
International	3,677	3,579	3,989	4,387	5,074
Total	39,000	38,300	40,100	41,900	43,800
Financial Consultants and Account Executives Worldwide	11,800	12,100	12,700	13,100	13,400
Compensation Measures:					
Support Personnel to Producer Ratio *(c)*	1.55	1.47	1.44	1.43	1.46
Net Revenues per Employee *(d)*	$148	$189	$214	$252	$220
Pretax Earnings per Employee *(d)*	$.7	$ 27	$ 40	$ 58	$ 39
Compensation and Benefits Expense as a % of Net Revenues	53.2%	53.4%	50.9%	49.8%	51.5%
Compensation and Benefits Expense as a % of Total Non-Interest Expenses	55.9%	62.1%	62.7%	64.6%	62.7%

(a) Client accounts have been redefined to include certain institutional private portfolio accounts.

(b) Full credit to book manager. All market share data is derived from Securities Data Co.

(c) Support personnel includes sales assistants.

(d) Dollars in thousands.

QUARTERLY INFORMATION

Presented below are the unaudited results of operations of the Corporation by quarter for 1994 and 1993. The first quarter of 1993 has been restated for the adoption of Statement of Financial Accounting Standards No. 112 (see Accounting Changes in the Notes to Consolidated Financial Statements). The quarterly information is prepared in conformity with generally accepted accounting principles and reflects all adjustments (which consist of only normal recurring adjustments except as noted above, and the 1993 first quarter non-recurring $103,000 pretax lease charge related to the Corporation's decision not to occupy certain floors at its headquarters facility) that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. The nature of the Corporation's business is such that the results of an interim period are not necessarily indicative of results for a full year.

(Dollars in Thousands, Except Per Share Amounts)	*For the Quarter Ended* Dec. 30, 1994	Sept. 30, 1994	July 1, 1994	April 1, 1994	Dec. 31, 1993	Sept. 24, 1993	June 25, 1993	Mar. 26, 1993
	(13 Weeks)	*(13 Weeks)*	*(13 Weeks)*	*(13 Weeks)*	*(14 Weeks)*	*(13 Weeks)*	*(13 Weeks)*	*(13 Weeks)*
Total Revenues	$4,483,757	$4,530,223	$4,480,300	$4,738,811	$4,526,136	$4,140,048	$3,963,009	$3,958,984
Interest Expense	2,391,028	2,227,978	2,082,581	1,906,983	1,768,139	1,506,428	1,408,512	1,346,868
Net Revenues	2,092,729	2,302,245	2,397,719	2,831,828	2,757,997	2,633,620	2,554,497	2,612,116
Non-Interest Expenses	1,837,517	1,912,723	1,965,057	2,179,620	2,160,717	1,991,321	1,959,589	2,021,795
Earnings Before Income Taxes and Cumulative Effect of Change in Accounting Principle	255,212	389,522	432,662	652,208	597,280	642,299	594,908	590,321
Income Tax Expense	93,598	157,943	180,853	280,449	250,041	282,612	249,861	247,935
Earnings Before Cumulative Effect of Change in Accounting Principle	161,614	231,579	251,809	371,759	347,239	359,687	345,047	342,386
Cumulative Effect of Change in Accounting Principle (Net of Applicable Income Taxes)	–	–	–	–	–	–	–	(35,420)
Net Earnings	$ 161,614	$ 231,579	$ 251,809	$ 371,759	$ 347,239	$ 359,687	$ 345,047	$ 306,966
Earnings Per Common Share:								
Primary	$.76	$ 1.10	$ 1.18	$ 1.68	$ 1.53	$ 1.57	$ 1.52	$ 1.35
Fully Diluted	$.75	$ 1.10	$ 1.18	$ 1.68	$ 1.53	$ 1.56	$ 1.51	$ 1.35

The 1993 first quarter includes the cumulative effect of a change in accounting principle of $(.16) per common share primary and fully diluted.

DIVIDENDS PER COMMON SHARE

(Declared and paid)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
1994	$.20	$.23	$.23	$.23
1993	$.15	$.175	$.175	$.20

There are no restrictions on the Corporation's present ability to pay dividends on common stock, other than (a) the Corporation's obligation first to make dividend payments on its preferred stock and (b) the governing provisions of the Delaware General Corporation Law. Certain subsidiaries' ability to declare dividends may also be limited (see Regulatory Requirements and Dividend Restrictions in the Notes to Consolidated Financial Statements).

STOCKHOLDER INFORMATION

Consolidated Transaction Reporting System prices for the specified calendar quarters are noted below.

	1st Qtr. High	1st Qtr. Low	2nd Qtr. High	2nd Qtr. Low	3rd Qtr. High	3rd Qtr. Low	4th Qtr. High	4th Qtr. Low
1994	$45 5/8	$36 1/2	$40 1/2	$34 1/4	$40 7/8	$34 1/4	$41 1/8	$32 1/4
1993	$37 1/16	$28	$40 15/16	$33 5/8	$50 7/8	$39 9/16	$51 3/16	$41 3/4

The approximate number of record holders of common stock as of February 3, 1995 was 12,160.

Merrill Lynch & Co., Inc. Board of Directors

William O. Bourke

Retired Chairman and Chief Executive Officer of Reynolds Metals Company, a producer of aluminum products...67 years old...elected a Director of Merrill Lynch in 1987.

Jill K. Conway

Visiting Scholar, Massachusetts Institute of Technology ...President of Smith College from 1975 to 1985...60 years old...elected a Director of Merrill Lynch in 1978.

Stephen L. Hammerman

Vice Chairman of the Board and General Counsel... 56 years old...joined Merrill Lynch in 1978.

Robert A. Hanson

Retired Chairman of the Board and formerly Chief Executive Officer of Deere & Company, a manufacturer, distributor, and financier of farm and industrial equipment...70 years old...elected a Director of Merrill Lynch in 1984.

Earle H. Harbison, Jr.

Chairman of Harbison Walker, Inc., a manufacturer of molded plastic products...retired Chairman of the Executive Committee and formerly President and Chief Operating Officer of Monsanto Company... 66 years old...elected a Director of Merrill Lynch in 1987.

George B. Harvey

Chairman of the Board, President and Chief Executive Officer of Pitney Bowes Inc., a provider of mailing, office and logistics systems and management and financial services...63 years old...elected a Director of Merrill Lynch in 1993.

David H. Komansky

President and Chief Operating Officer...55 years old... joined Merrill Lynch in 1968.

Robert P. Luciano

Chairman and Chief Executive Officer of Schering-Plough Corporation, a health and personal care products company...61 years old...elected a Director of Merrill Lynch in 1989.

Aulana L. Peters

Partner of Gibson, Dunn & Crutcher...formerly Commissioner of the Securities and Exchange Commission...53 years old...elected a Director of Merrill Lynch in 1994.

John J. Phelan, Jr.

Former Chairman and Chief Executive Officer of the New York Stock Exchange, Inc...Senior Adviser, Boston Consulting Group...member of the Council on Foreign Relations...formerly President of the International Federation of Stock Exchanges...63 years old...became a Director of Merrill Lynch in 1991.

Charles A. Sanders, M.D.

Chairman and formerly Chief Executive Officer of Glaxo Inc., a pharmaceutical company...formerly Vice Chairman of Squibb Corporation...63 years old... elected a Director of Merrill Lynch in 1987.

Daniel P. Tully

Chairman and Chief Executive Officer... 63 years old...joined Merrill Lynch in 1955.

William L. Weiss

Chairman of the Board of Ameritech Corporation, a provider of communications products and services, until April 1994...formerly Chief Executive Officer of that company...65 years old...elected a Director of Merrill Lynch in 1993.

Executive Management

Herbert M. Allison, Jr.
Executive Vice President
Corporate and Institutional Business Group

Paul W. Critchlow
Senior Vice President
Marketing & Communications

Barry S. Friedberg
Executive Vice President
Chairman
Investment Banking

Edward L. Goldberg
Executive Vice President
Operations, Systems and Telecommunications

Stephen L. Hammerman
Vice Chairman of the Board
General Counsel

John G. Heimann
Chairman
Global Financial Institutions

Jerome P. Kenney
Executive Vice President
Corporate Strategy, Credit & Research

David H. Komansky
President and
Chief Operating Officer

Daniel T. Napoli
Senior Vice President
Risk Management

Thomas H. Patrick
Executive Vice President
Chairman
Special Advisory Services

Winthrop H. Smith, Jr.
Executive Vice President
International

John L. Steffens
Executive Vice President
Private Client Group

Daniel P. Tully
Chairman and
Chief Executive Officer

Roger M. Vasey
Executive Vice President
Senior Advisor

Patrick J. Walsh
Senior Vice President
Human Resources

Joseph T. Willett
Senior Vice President and
Chief Financial Officer

Arthur Zeikel
Executive Vice President
Asset Management Group

EXECUTIVE OFFICES

Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, New York 10281-1332

COMMON STOCK

Exchange Listings

The common stock of Merrill Lynch (trading symbol MER) is listed on the New York Stock Exchange, Chicago Stock Exchange, Pacific Stock Exchange, Paris Bourse, London Stock Exchange and Tokyo Stock Exchange.

Merrill Lynch & Co., Inc. is the principal transfer agent for its own common stock. Questions from registered stockholders on dividends, lost and stolen certificates, changes of legal or dividend addresses, and other matters relating to registered stockholder status should be sent to:

Merrill Lynch & Co., Inc.
P.O. Box 20, Church Street Station
New York, NY 10277-1004
Attn: Gregory T. Russo, Secretary

However, registered stockholders wishing to transfer their stock should continue to do so through the following transfer agent and registrar:

Chemical Bank
450 West 33rd Street
New York, NY 10001
1-800-298-6803

PREFERRED STOCK

Exchange Listing

Depositary Shares representing 1/400 of a share of 9% Cumulative Preferred Stock, Series A, are listed on the New York Stock Exchange.

Transfer Agent and Registrar

Citibank, N.A.
120 Wall Street, 13th Floor
New York, NY 10043
Attn: Corporate Trust Department

FORM 10-K ANNUAL REPORT FOR 1994

This Annual Report of Merrill Lynch & Co., Inc. contains much of the financial information that will be included in the 1994 Annual Report on Form 10-K to be filed with the Securities and Exchange Commission. Merrill Lynch will furnish a copy of its 1994 Annual Report on Form 10-K (including financial statements and financial statement schedules but excluding other exhibits), without charge, to any person upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., P.O. Box 20, Church Street Station, New York, NY 10277-1004.

EQUAL EMPLOYMENT OPPORTUNITY

Merrill Lynch is committed to Equal Employment Opportunity and to attracting and retaining the most qualified employees regardless of race, national origin, religion, gender, age, or disability. For more information, write to Scott L. Eggebeen, Vice President of Merrill Lynch Corporate Staff, Human Resources, Merrill Lynch & Co., Inc., World Financial Center, South Tower, New York, NY 10080-6111.

CHARITABLE CONTRIBUTIONS

A summary of the Corporation's charitable contributions is available upon written request to the Secretary.

ANNUAL MEETING

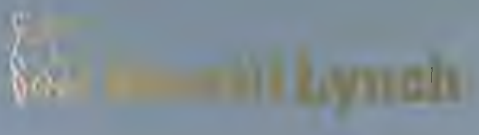
The 1995 Annual Meeting of Merrill Lynch & Co., Inc. stockholders will take place at the Merrill Lynch Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey. The meeting is scheduled for Tuesday, April 18, 1995, beginning at 10:30 a.m. (local time).

Merrill Lynch expresses its appreciation to: Ausaf Abbas, Indira Anand, David April, Dorothy Bailey, Kathleen Belschner, Jim Birle, Kenneth Chiang, Mark DeSario, Richard Dunn, Kim Evans, Jose Fraga, Doreen Frasca, Yukihiro Fujii, Richard Gemberling, Kimberly Goldwasser, Jeffrey Humber, Barbara Jennings, Dow Kim, Janet Klein, Audrey Kurtzman, Matthew Li, Cory Little, Sandra Cua McGrath, Ray McGuire, Mandakini Puri, Mary Taylor, Robin Walden, Louis Wolfe, K.L. Wong, Debra Landsman Yaros, William Yelverton, Henry Yordan, Mel Young.

Designed by DeSola Group, Inc.

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MERRILL LYNCH & CO., INC.
WORLD FINANCIAL CENTER
NORTH TOWER
NEW YORK, NY 10281-1332

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Proxy Statement

Notice of the Annual
Meeting of Stockholders
to be held April 19, 1994

Merrill Lynch & Co., Inc.
Conference and Training Center
Plainsboro, New Jersey





March 14, 1994

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders to be held at 10:30 A.M., local time, on Tuesday, April 19, 1994, at the Merrill Lynch & Co., Inc. Conference and Training Center, Plainsboro, New Jersey.

Information regarding the business of the meeting is set forth in the following formal Notice of Annual Meeting and Proxy Statement. There will be an opportunity for stockholders to ask questions about our business and to comment on any aspect of company affairs properly brought before the meeting.

We cannot stress strongly enough that the vote of every stockholder, regardless of the number of shares owned, is important. Therefore, after you read the Notice of Annual Meeting and Proxy Statement, and even if you plan to attend the meeting, please complete and return promptly the enclosed form of proxy to ensure that your shares will be represented. A return envelope is enclosed for your convenience. Since mail delays may occur, it is important that the proxy be returned well in advance of the meeting. If you decide to attend the meeting and wish to vote your shares personally, you may revoke your proxy at any time before it is exercised at the meeting. Merrill Lynch will admit to the meeting stockholders of record, persons holding proof of beneficial ownership or who have been granted proxies, and any other persons that Merrill Lynch, in its sole discretion, may elect to admit.

We look forward to receiving your vote and seeing you at the meeting. Any stockholder requiring directions to the meeting, or who has a disability that may require special assistance, is asked to contact our Corporate Secretary, Gregory T. Russo, at 100 Church Street, 12th Floor, New York, NY 10080-6512.

Sincerely,

Daniel P. Tully

DANIEL P. TULLY
Chairman of the Board and
Chief Executive Officer



Notice of Annual Meeting of Stockholders to be held April 19, 1994

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MERRILL LYNCH & CO., INC. ("ML & Co."), a Delaware corporation, will be held on Tuesday, April 19, 1994, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey, for the following purposes:

(1) To elect 5 directors to the Board of Directors to hold office for a term of 3 years;

(2) To consider approving performance goals governing, and eligibility requirements for, certain annual bonuses and grants of restricted shares and units;

(3) To consider a stockholder proposal; and

(4) To transact such other business as properly may come before the Annual Meeting and any adjournment thereof.

Only holders of Common Stock of record on the books of ML & Co. at the close of business on February 23, 1994, are entitled to notice of, and to vote at, the Annual Meeting and any adjournment thereof. A list of such stockholders will be available from April 8, 1994, until prior to the meeting, as required by law, at the office of Merrill Lynch Asset Management located at 800 Scudders Mill Road, Plainsboro, New Jersey. This list will also be available at the Annual Meeting. The stock transfer books will not be closed.

Public notice of the date of the Annual Meeting was previously included in ML & Co.'s Quarterly Report on Form 10-Q for the period ended September 24, 1993, which was filed with the Securities and Exchange Commission on November 5, 1993, and in ML & Co.'s Third Quarter Report to stockholders mailed on November 16, 1993.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary

New York, N.Y.
March 14, 1994

STOCKHOLDERS ARE URGED TO VOTE, SIGN, AND DATE THE ENCLOSED FORM OF PROXY AND TO RETURN IT IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES.

The Proxy Statement for the Annual Meeting follows this page. For stockholders who have not previously been sent a copy, enclosed is the Annual Report of ML & Co. for 1993, which is not proxy soliciting material.

Merrill Lynch

Proxy Statement

Annual Meeting of Stockholders
April 19, 1994

March 14, 1994

World Financial Center
North Tower
New York, NY 10281

This Proxy Statement is furnished in connection with the solicitation on behalf of the Board of Directors of Merrill Lynch & Co., Inc., a Delaware corporation ("ML & Co."), of proxies from holders of ML & Co. Common Stock, par value $1.33⅓ per share (the "Common Stock"), eligible to vote at the forthcoming Annual Meeting of Stockholders, and at any adjournment thereof, on the matters set forth in the foregoing Notice of Annual Meeting of Stockholders. The Annual Meeting will be held on Tuesday, April 19, 1994, at 10:30 A.M., local time, at the Merrill Lynch & Co., Inc. Conference and Training Center, 800 Scudders Mill Road, Plainsboro, New Jersey.

The close of business on February 23, 1994 has been fixed by the Board of Directors as the record date for determining the stockholders entitled to notice of, and to vote at, the Annual Meeting and at any adjournment thereof. On that date, there were 212,582,125* shares of Common Stock outstanding (excluding treasury shares), the holders thereof being entitled to one vote per share. To the knowledge of ML & Co., except as provided below, no person is the beneficial owner of more than 5% of the outstanding shares of Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
State Street Bank and Trust Company, Trustee ("State Street") 225 Franklin Street Boston, Massachusetts 02110 Merrill Lynch & Co., Inc. Employee Stock Ownership Plan (the "ESOP")	11,913,420(2)	5.6%
Other ML & Co. employee benefit plans	4,005,190(3)	1.9%
Other	2,066,982(4)	1.0%
The Equitable Companies Incorporated (the "Equitable Companies") 787 Seventh Avenue New York, New York 10019	18,319,242(5)	8.6%

* All amounts of shares of Common Stock presented in this Proxy Statement reflect the two-for-one Common Stock split, effected in the form of a 100% stock dividend, paid on November 24, 1993.

(1) Percentages are calculated based on the Common Stock outstanding as of February 23, 1994.

(2) The amount shown is the number of shares of Common Stock that, as of February 23, 1994, were held by the ESOP but had not been allocated to participants; as of that date, an additional 12,826,979 shares of Common Stock allocated to participants were held by the ESOP (representing an additional 6.0% of the outstanding shares of Common Stock) . Thus, the ESOP held a total of 24,740,399 shares of Common Stock, representing 11.6% of the outstanding shares of Common Stock. Participants have the right to direct the voting of allocated shares by State Street as a co-trustee of the ESOP. Subject to the provisions of the ESOP trust agreement, State Street is obligated to vote unallocated shares, and allocated shares for which it has not received directions, in the same proportion as directed shares are voted. The trust agreement also contains provisions regarding the allocation of shares to participants, the vesting of shares of Common Stock in participants, and the disposition of shares.

(3) Information concerning the amount and nature of beneficial ownership is as of February 23, 1994. Participants have the right to direct the voting of shares of Common Stock by State Street as a co-trustee of these plans. Subject to the provisions of the trust agreements relating to these employee benefit plans, State Street is obligated to vote shares for which it has not received directions in the same proportion as directed shares are voted. The trust agreements also contain provisions regarding the disposition of shares.

(4) Information concerning the amount and nature of beneficial ownership is as of December 31, 1993 and was supplied by State Street. As trustee for various collective investment funds for employee benefit plans and index accounts not affiliated with ML & Co. and for various personal trust accounts not affiliated with ML & Co., State Street has sole power to vote, or to direct the vote of, 1,649,082 of such shares, and sole power to dispose of, or to direct the disposition of, 2,048,782 of such shares.

(5) Information concerning the amount and nature of beneficial ownership is as of December 31, 1993 and was supplied by the Equitable Companies, AXA, a French insurance holding company that owns 49% of the Equitable Companies (''AXA''), and a group of five French mutual insurance companies that own, as a group, 50% of AXA (the ''Mutuelles AXA''). Such information indicates that shares are held by subsidiaries of the Equitable Companies as follows: (i) 17,507,200 are held on behalf of client discretionary investment accounts by Alliance Capital Management, L.P. (''Alliance'') (which has sole dispositive power over all such shares, sole voting power over 9,872,560 of such shares, and shared voting power over 228,700 of such shares); (ii) 811,800 shares are held by The Equitable Life Assurance Society of the United States (which has sole voting and dispositive power over all such shares); (iii) 200 are held on behalf of client discretionary investment advisory accounts by Wood, Struthers & Winthrop Management Corp. (which has shared voting and sole dispositive power over all such shares); and (iv) 42 are held for investment purposes by Donaldson Lufkin & Jenrette Securities Corporation (which has sole voting and dispositive power over all such shares). Each of AXA, the Mutuelles AXA, as a group, and the Equitable Companies, by virtue of their relationship to the Equitable Companies' subsidiaries, may be deemed to have sole voting power over 10,684,402 of the above-mentioned shares and shared voting power over 228,900 of such shares.

A plurality of the votes of the shares of Common Stock represented in person or by proxy at the Annual Meeting is required for the election of directors. The affirmative vote of the majority of the shares of Common Stock represented at the Annual Meeting in person or by proxy and entitled to vote is required to approve the proposed performance goals governing, and eligibility requirements for, certain annual bonuses and grants of restricted shares and units (the "Performance Goals Proposal"), the stockholder proposal and all other matters. All shares of Common Stock represented by valid proxies received pursuant to this solicitation and not revoked will be voted in accordance with the choices specified. Where no specification is made with respect to any item submitted to a vote, such shares will be voted for the election as directors of ML & Co. of the 5 persons named under the caption "Election of Directors," for the Performance Goals Proposal, and against the stockholder proposal. Since the proxy confers discretionary authority to vote upon other matters that properly may come before the meeting, shares represented by signed proxies returned to ML & Co. will be voted in accordance with the judgment of the person or persons voting the proxies on any other matters that properly may be brought before the meeting. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will have no effect on the outcome of the vote. With regard to other proposals, votes may be cast in favor or against, or a stockholder may abstain. Abstentions will be counted as shares that are represented at the meeting and entitled to vote. Abstentions on the stockholder proposal and on the Performance Goals Proposal will have the effect of a negative vote because such proposals require the affirmative vote of a majority of shares present in person or by proxy and entitled to vote. Under the rules of the New York Stock Exchange, Inc. ("NYSE"), brokers who hold shares in street name for customers have the authority to vote on certain items in the event that they have not received instructions from beneficial owners. Brokers (other than ML & Co.'s subsidiary, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S")) that do not receive instructions are entitled to vote on the election of directors. Under such rules, if MLPF&S does not receive instructions on this item, it is entitled to vote shares only in the same proportion as the shares represented by votes from all record holders. With respect to the Performance Goals Proposal and the stockholder proposal, neither MLPF&S nor any other broker may vote shares held for customers without specific instructions from such customers. Under applicable Delaware law, a broker non-vote will be disregarded and will have no effect on the outcome of the election of directors, the Performance Goals Proposal or the stockholder proposal.

The execution of a proxy will not affect a stockholder's right to attend the Annual Meeting and to vote in person. A stockholder who executes a proxy may revoke it at any time before it is exercised at the meeting by giving notice to the Secretary of ML & Co. or by filing another proxy.

The expenses involved in the preparation of proxy materials and the solicitation on behalf of the Board of Directors of proxies for the Annual Meeting will be borne by ML & Co. In addition to the solicitation of proxies by mail, solicitation may be made by certain directors, officers, and other employees of ML & Co. or of its subsidiaries in person or by telephone, telegraph, or other means of communication, for which no additional compensation will be paid, and by Georgeson & Co., Inc. for a fee of $22,000 plus expenses. ML & Co. will reimburse brokers, including MLPF&S, and other nominees for costs incurred by them in mailing soliciting materials to the beneficial owners of its stock in accordance with the rules of the NYSE.

The accounting firm of Deloitte & Touche has been selected by the Board of Directors, upon the recommendation of the Audit and Finance Committee of the Board, as the independent public accountants of ML & Co. and its subsidiaries during the 1994 fiscal year. Representatives of Deloitte & Touche are expected to be present at the Annual Meeting with the opportunity to make a statement, if they desire to do so, and to answer stockholders' questions.

ELECTION OF DIRECTORS

The Board of Directors of ML & Co. is divided into 3 classes. Each class serves for a 3-year term and one class of directors is elected each year. During the 1993 fiscal year, the Board of Directors met 9 times.

The Board of Directors proposes the election, as directors, of the 5 persons named below, to hold office for a term of 3 years, ending in 1997. The remaining 8 directors named below will continue to serve in accordance with their previous elections. It is intended that shares of Common Stock represented by proxies received in response to this Proxy Statement will be voted for the election of the nominees listed below unless otherwise directed by stockholders in their proxies. While it is not anticipated that any of the nominees will be unable to take office, if that is the case, such shares will be voted in favor of the other person or persons proposed by the Board of Directors.

The following information is provided concerning directors of ML & Co., nominees for election as directors, and executive officers. The information as to ownership of Common Stock and certain affiliations is based upon information received from the nominees, directors, and executive officers.

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of February 23, 1994(2)
NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS		
For a 3-Year Term Expiring in 1997		
William O. Bourke, 66 Corporate Director (3); Chairman of the Board of Reynolds Metals Company, a producer of aluminum products, from April, 1988 to May, 1992; Chief Executive Officer of that company from April, 1986 to May, 1992; President of that company from January, 1983 to April, 1988.	1987	4,120(4)
Stephen L. Hammerman, 55 Vice Chairman of the Board since April, 1992; Executive Vice President from June, 1985 to April, 1992; General Counsel since October, 1984; General Counsel of MLPF&S since March, 1981.	1985	694,442(5)(6
Aulana L. Peters, 52 (3) Partner in the law firm of Gibson, Dunn & Crutcher since 1988 and from 1980 to 1984; Commissioner of the U.S. Securities and Exchange Commission from 1984 to 1988.	Not Previously a Director	200

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of February 23, 1994(2)
John J. Phelan, Jr., 62 Corporate Director (3); Senior Adviser to the Boston Consulting Group since October, 1992; Member of the Council on Foreign Relations since 1988; President of the International Federation of Stock Exchanges from January, 1991 to January, 1993; Chairman and Chief Executive Officer of the New York Stock Exchange, Inc. from May, 1984 to December, 1990.	1991	3,920
Charles A. Sanders, M.D., 62 (3) Chairman of the Board of Glaxo Inc., a pharmaceutical company, since January, 1992; Chief Executive Officer of that company from July, 1989 through February, 1994; Vice Chairman of Squibb Corporation, a pharmaceutical and health care products company, from March, 1988 to July, 1989; Executive Vice President of that company from September, 1981 to March, 1988.	1987	3,920

MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

Term Expiring in 1995

Robert A. Hanson, 69 Corporate Director (3); Chairman of the Board of Deere & Company, a manufacturer, distributor, and financier of farm and industrial equipment, from October, 1982 to June, 1990; Chief Executive Officer of that company from August, 1982 to August, 1989.	1984	1,552
Earle H. Harbison, Jr., 65 (3) Chairman of the Board of Harbison Walker, Inc., a manufacturer of molded plastic products; Chairman of the Executive Committee of Monsanto Company, a provider of chemical and agricultural products, pharmaceuticals, sweeteners, industrial process controls, and man-made fibers, from January, 1993 to August, 1993; President and Chief Operating Officer of that company from May, 1986 through December, 1992.	1987	5,320(4)
Daniel P. Tully, 62 Chairman of the Board since June, 1993; Chief Executive Officer since May, 1992; President and Chief Operating Officer since July, 1985; Chairman of the Board, President, and Chief Executive Officer of MLPF&S since July, 1985.	1985	1,745,678(5)(6)
Robert P. Luciano, 60 (3) Chairman of the Board of Schering-Plough Corporation, a health and personal care products company, since January, 1984 and its Chief Executive Officer since February, 1982.	1989	3,920

Name, Age, and Principal Occupation for the Last 5 Years(1)	Director Since	Amount and Nature of Beneficial Ownership of Common Stock as of February 23, 1994(2)
MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE		
Term Expiring in 1996		
Jill K. Conway, 59 (3) Visiting Scholar, Massachusetts Institute of Technology since 1985; President of Smith College from July, 1975 to June, 1985.	1978	3,354
William J. Crowe, Jr., 69 (3) Counselor, The Center for Strategic and International Studies, an economic and political consulting organization, since February 1990; Chairman of the Foreign Intelligence Advisory Board for the President of the United States since January, 1993; Professor of Geopolitics at the University of Oklahoma since January, 1990; Admiral, United States Navy (Retired); Chairman of the Joint Chiefs of Staff, the principal military advisors to the President of the United States of America, from October, 1985 to September, 1989.	1989	1,736
George B. Harvey, 62 (3) Chairman of the Board, President, and Chief Executive Officer of Pitney Bowes Inc., a provider of mailing, office and logistics systems and management and financial services, since 1983.	1993	3,386
William L. Weiss, 64 (3) Chairman of the Board of Ameritech Corporation, a provider of communications and information services, since 1983 and its Chief Executive Officer from 1983 through December, 1993.	1993	2,786
Executive Officers Named in the Summary Compensation Table (in addition to those who are directors)		
Herbert M. Allison, Jr.		616,221(5)
David H. Komansky		532,299(5)(6)
John L. Steffens		895,677(5)
All directors and executive officers of ML & Co. as a group, including those named above		6,191,446(4)(5)(6)

(1) Unless otherwise indicated, the offices listed are of ML & Co.

(2) All directors, nominees, and executive officers have sole investment power and sole voting power over shares listed, except as indicated in notes 4, 5, and 6 below. The percentage of shares beneficially owned by any one director, nominee or executive officer did not exceed 1% of the outstanding Common Stock. All current directors, nominees, and executive officers of ML & Co. as a group owned 2.9% of the outstanding Common Stock.

(3) The following directors and nominees also hold directorships in, or similar affiliations with, the following companies:

William O. Bourke—Reynolds Metals Company; Premark International, Inc.; and Sonat Inc.

Jill K. Conway—The Allen Group, Inc.; Arthur D. Little, Inc.; Colgate-Palmolive Company; and NIKE, Inc.

William J. Crowe, Jr.—General Dynamics Corporation; Norfolk Southern Corporation; Pfizer Inc.; and Texaco Inc.

Robert A. Hanson—The Dun & Bradstreet Corporation; Procter & Gamble Company; and R.R. Donnelley & Sons Company.

Earle H. Harbison, Jr.—Harbison Walker, Inc.; Angelica Corporation; Mutual of America; and National Life Insurance Company.

George B. Harvey—Pitney Bowes Inc.; Connecticut Mutual Life Insurance Co.; and McGraw-Hill, Inc.

Robert P. Luciano—Schering-Plough Corporation; Allied-Signal, Inc.; Borden, Inc.; and C.R. Bard, Inc.

Aulana L. Peters—Northrop Corporation; Mobil Corporation; Minnesota Mining and Manufacturing Company (3M); and the New York Stock Exchange, Inc.

John J. Phelan, Jr.—Avon Products, Inc.; Eastman Kodak Company; Metropolitan Life Insurance Company; and Sonat Inc.

Charles A. Sanders, M.D.—Glaxo Holdings p.l.c.; Morton International, Inc.; and Reynolds Metals Company.

William L. Weiss—Ameritech Corporation; Abbott Laboratories; The Quaker Oats Company; and Tenneco Inc.

(4) The number of shares shown for Messrs. Bourke and Harbison include shares held by their wives, as to which they may be deemed to have shared investment power and shared voting power. Each of them has expressly disclaimed beneficial ownership of the shares held by his wife (200 shares in the case of Mr. Bourke and 2,000 shares in the case of Mr. Harbison).

(5) Beneficial ownership shown for the following individuals and group also includes the indicated number of shares of Common Stock that may be purchased upon the exercise (presently or within 60 days) of Stock Options granted under the ML & Co. Long-Term Incentive Compensation Plan: Daniel P. Tully (1,218,225); Stephen L. Hammerman (473,060); Herbert M. Allison, Jr. (434,705); David H. Komansky (316,345); John L. Steffens (596,345); and all current directors and executive officers of ML & Co. as a group (3,977,575).

(6) Beneficial ownership shown for Mr. Hammerman, and for the group consisting of all directors and executive officers of ML & Co., includes 35,000 shares of Common Stock held in trusts as to which Mr. Hammerman has shared voting and investment power. Beneficial ownership shown for Mr. Tully, and for the group consisting of all directors and executive officers of ML & Co., includes 9,000 shares of Common Stock held in a trust as to which Mr. Tully has shared voting and investment power. Beneficial ownership shown for Mr. Komansky, and for the group consisting of all directors and executive officers of ML & Co., includes 1,447 shares of Common Stock held by a charitable foundation of which Mr. Komansky and two other executive officers not named in the Summary Compensation Table act as trustees and as to which they have shared voting and investment power. Beneficial ownership shown for the group consisting of all directors and executive officers of ML & Co. includes 10,148 shares of Common Stock held in a charitable foundation as to which an executive officer not named in the Summary Compensation Table has shared voting and investment power and 616 shares of Common Stock held in trusts as to which an executive officer not named in the Summary Compensation Table has sole voting and investment power.

Committees of the Board of Directors

In addition to an Executive Committee, ML & Co. has standing Audit and Finance, Management Development and Compensation, and Nominating Committees of the Board of Directors.

The Audit and Finance Committee consists of Mr. Hanson, who chairs the committee, and Messrs. Crowe, Harvey, Luciano, and Sanders. The committee held 6 meetings during the 1993 fiscal year. The Audit and Finance Committee has performed the following functions, among others: monitoring ML & Co.'s system of internal accounting controls and overseeing and evaluating the internal audit function; recommending the appointment and monitoring the performance, independence, and fees of ML & Co.'s independent public accountants and monitoring professional services they provide; reviewing the scope of the annual audit with the independent public accountants and reviewing their reports to management; reviewing ML & Co.'s annual consolidated financial statements; and overseeing corporate funding policy, securities offerings, budgets and financial objectives, financial commitments and related policies, and risk management policies and procedures.

The Management Development and Compensation Committee, which consists of Mrs. Conway, who chairs the committee, and Messrs. Bourke, Harbison, Phelan, and Weiss, held 10 meetings during the 1993 fiscal year. This committee has performed the following functions, among others: exercising primary responsibility on behalf of the Board of Directors for reviewing and recommending employee compensation programs, policies, and practices, including salary, cash incentive, long-term incentive compensation, stock purchase, and other retirement and health and welfare programs; making grants under ML & Co.'s Equity Capital Accumulation Plan and Long-Term Incentive Compensation Plan; discharging the responsibilities described below under the caption "Compensation Committee Report"; and periodically reviewing management development programs and executive succession plans.

The Nominating Committee, which consists of Mr. Harbison, who chairs the committee, Mrs. Conway and Mr. Hanson (all of whom are voting members) and Mr. Tully (who is a non-voting member) held 1 meeting and had a number of discussions during the 1993 fiscal year. This committee has performed the following functions: seeking potential candidates to serve on the Board of Directors with a view toward a desirable balance of expertise among Board members and recommending to the Board of Directors membership of committees of the Board and nominees to fill vacancies on the Board. The Nominating Committee will consider nominees recommended by stockholders. Those wishing to submit recommendations for the 1995 Annual Meeting of Stockholders should write to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 12th Floor, 100 Church Street, New York, New York 10080-6512.

APPROVAL OF PERFORMANCE GOALS GOVERNING, AND ELIGIBILITY REQUIREMENTS FOR, CERTAIN ANNUAL BONUSES AND GRANTS OF RESTRICTED SHARES AND UNITS

The Board of Directors recommends approval by the stockholders of the performance goals and eligibility requirements contained in the ML & Co. Executive Officer Compensation Plan (the "Cash Plan") and in resolutions adopted by ML & Co.'s Management Development and Compensation Committee ("MDCC"). These performance goals will govern, in the case of the Cash Plan, the award of annual bonuses and, in the case of the resolutions, the grant of Restricted Shares and Restricted Units under ML & Co.'s Long-Term Incentive Compensation Plan, which was approved by stockholders in 1989 ("LTIC"). Approval of the performance goals is being recommended to preserve, for the fiscal years 1994 and thereafter, ML & Co.'s federal tax deduction for compensation paid to its Chairman of the Board (the "Chairman") and/or Chief Executive Officer ("CEO") and the four next highest paid executive officers (as such term is defined in Rule 3b-7 of the rules and regulations promulgated under the Securities Exchange Act of 1934) (collectively, the "covered officers"), by complying with new provisions of Section 162(m) of the Internal Revenue Code ("IRC"), enacted as part of the Omnibus Budget Reconciliation Act of 1993. These provisions and the proposed regulations issued under IRC Section 162(m) by the U.S. Department of the Treasury could limit ML & Co.'s federal tax deduction for compensation paid to the covered officers to $1 million each, unless compensation in excess of this amount is based on the achievement of performance goals and eligibility requirements that have been approved by a committee of outside directors and approved by stockholders.

The MDCC, a committee of outside directors, has formulated the performance measures on which annual bonus amounts to be paid to covered officers under the Cash Plan and the dollar value of grants of Restricted Shares and Restricted Units to be made under LTIC to executive officers with the title Executive Vice President, Vice Chairman, Chief Operating Officer, CEO or Chairman will be based, and recommends approval of these performance measures by ML & Co.'s stockholders. The performance measures link changes in the dollar amount of annual bonus compensation and the dollar value (measured as of the time of the grant) of Restricted Share and Restricted Unit grants directly to changes in the financial performance of ML & Co. The specific financial performance measures used in the formula are ML & Co.'s Net Income Applicable to Common Stockholders (as defined below, "Net Income") and ML & Co.'s Return on Average Common Stockholders' Equity (as defined below, "ROE"). These performance measures have generally been used by the MDCC over the past several years to determine the funds available for annual bonuses for executive officers, including the CEO.

Under the Cash Plan and the resolutions adopted by the MDCC to govern its discretion in granting Restricted Share and Restricted Unit awards under LTIC, the performance goal formula will be used to determine the *maximum* cash bonus amount (the "Cash Bonus Amount") and the *maximum* dollar value of Restricted Shares and Restricted Units (the "Restricted Share and/or Restricted Unit Amount") that may be granted to the Chairman and/or the CEO. The Cash Bonus Amount for the Chairman and/or the CEO will be calculated by increasing or decreasing his Cash Bonus Amount from the prior year (which for the 1993 performance year was $6.2 million) by the Average Percentage Change in Performance for ML & Co. over such prior year. The Average Percentage Change in Performance is the sum of the percentage change in Net Income and the percentage change in ROE from one fiscal year to the next, divided by two. The Restricted Share and/or Restricted Unit Amount for the Chairman and/or CEO will also be calculated by increasing or decreasing his Restricted Share and/or Restricted

Unit Amount for the prior year (which for the 1993 performance year was $1.45 million) by the Average Percentage Change in Performance.

The Cash Bonus Amounts and Restricted Share and/or Restricted Unit Amounts with respect to a given performance year for additional officers (*i.e.*, those other than the Chairman and/or the CEO) covered by the Cash Plan or by the resolutions will be established as follows:

Chief Operating Officer	80% of the Chairman and/or CEO's Cash Bonus Amount or Restricted Share and/or Restricted Unit Amount.
Executive Vice President(s) and Vice Chairman	70% of the Chairman and/or CEO's Cash Bonus Amount or Restricted Share and/or Restricted Unit Amount

The performance goal formula has the effect of increasing compensation only when ML & Co.'s performance (as measured by Net Income and ROE) increases over a prior year and of decreasing compensation if ML & Co.'s performance declines from a prior year. Under the Cash Plan and the performance goals contained in the resolutions, no Cash Bonus Amounts or Restricted Share and/or Restricted Unit Amounts will be paid unless ML & Co. achieves a positive Net Income and a positive ROE for the relevant performance year. In the event that no Cash Bonus Amounts and Restricted Share and/or Restricted Unit Amounts are paid in a given year, the Cash Plan and the resolutions provide that, to calculate the next year's Cash Bonus Amounts and Restricted Share and/or Restricted Units Amounts, the MDCC will use all base amounts (including Net Income and ROE) from the most recent fiscal year in which Net Income and ROE were positive. The MDCC retains the discretion to reduce the amount of cash compensation or the dollar value of Restricted Share and Restricted Unit grants yielded by the formula for any officer.

Net Income and ROE were chosen as the performance measures by the MDCC because in combination they provide an incentive for executives to work towards both growth in profits and a high return on stockholders' equity. These measures also are currently used by the MDCC to determine cash incentive compensation levels throughout the corporation.

Prior to awarding any cash bonuses or any Restricted Share and/or Restricted Unit grants for the performance year 1994 and all future years covered by the Cash Plan and the resolutions, the MDCC or any sub-committee of the MDCC (or any successor thereto) will evaluate the performance of ML & Co. to certify that the performance goals have been met and will then determine compensation in accordance with the formula, subject to its discretion to reduce the compensation yielded by the formula.

As described under the caption "Executive Compensation—Compensation Committee Report," the MDCC decided to determine bonuses and Restricted Stock and/or Restricted Unit awards for the 1993 performance year consistent with the performance goals described herein. Bonus amounts paid for 1993 which are listed under the caption "Executive Compensation—Summary Compensation Table" were determined consistent with the performance goals and the MDCC's discretion described herein.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR the adoption of this proposal.

Certain Definitions:

The performance goals contained in the Cash Plan and in the resolutions governing Restricted Share and Restricted Unit grants under LTIC use the following definitions:

"Average Common Stockholders' Equity" means, with respect to any performance year, the sum of the month-end common stockholders' equity (excluding preferred stock) for the month of December in the fiscal year prior to such performance year and each of the 12 months in such performance year, as reported by ML & Co., divided by 13.

"Net Income" means, with respect to any performance year, Net Earnings for ML & Co. Applicable to Common Stockholders, as it appears in ML & Co.'s Statement of Consolidated Earnings contained in ML & Co.'s Consolidated Financial Statements for such performance year adjusted to eliminate (i) the cumulative effect of changes in accounting principles (which include changes in generally accepted accounting principles) adopted by ML & Co. for the relevant performance year; (ii) expenses classified as "Provisions for Restructuring" (net of "Related Applicable Income Tax Benefits") within ML & Co.'s Statement of Consolidated Earnings; (iii) gains and/or losses classified as "Discontinued Operations" within ML & Co.'s Statement of Consolidated Earnings; and (iv) gains or losses classified as "Extraordinary Items" within ML & Co.'s Statement of Consolidated Earnings (which may, in accordance with generally accepted accounting principles, include (A) profits or losses on disposal of assets or segments of the previously separate companies of a business combination within two years of the date of such combination; (B) gains on restructuring payables; (C) gains or losses on the extinguishment of debt; (D) gains or losses from the expropriation of property; (E) gains or losses that are the direct result of a major casualty; and (F) losses resulting from a newly enacted law or regulation).

"ROE" means, with respect to any performance year, the Net Income for such period, divided by the Average Common Stockholders' Equity for such period.

STOCKHOLDER PROPOSAL

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Ave., N.W., Suite 215, Washington, D.C. 20037, holding 200 shares of Common Stock, has given notice of her intention to propose the following resolution at the Annual Meeting:

> "RESOLVED: That the stockholders of Merrill Lynch, assembled in Annual Meeting in person and by proxy, hereby request the Board of Directors to take the necessary steps to provide for cumulative voting in the election of directors, which means each stockholder shall be entitled to as many votes as shall equal the number of shares he or she owns multiplied by the number of directors to be elected, and he or she may cast all of such votes for a single candidate, or any two or more of them as he or she may see fit."

The following statement has been submitted by Mrs. Davis in support of the resolution:

> "REASONS: Many states have mandatory cumulative voting, so do National Banks."
>
> "In addition, many corporations have adopted cumulative voting."
>
> "Last year the owners of 24,064,876* shares, representing approximately 29.3% of shares voting, voted FOR this proposal."
>
> "If you AGREE, please mark your proxy FOR this resolution."

The Board of Directors recommends a vote AGAINST the adoption of this proposal.

This same proposal has been previously submitted eight times by its proponent to Annual Meetings of Stockholders. It has been consistently opposed by the Board of Directors and defeated by stockholders every time by a substantial majority of the votes cast.

The reasons the Board of Directors opposes this resolution are essentially the same as those stated in the proxy statements for the eight prior Annual Meetings at which the proposal was submitted. Under the General Corporation Law of Delaware (the "Corporation Law"), the state in which ML & Co. is incorporated, cumulative voting is permissible only if provided for in a corporation's certificate of incorporation. The general rule under the Corporation Law, which is followed by many large corporations, is that each director must be elected by a plurality of the votes of the shares present in person or represented by proxy.

The Board of Directors would recommend a change in the method of stockholder voting only if another method would better serve the interests of the stockholders as a whole. To the contrary, cumulative voting would give stockholders who seek to support a special interest group the potential to elect one or more directors representing the interests of that group. Any directors so elected may view themselves as representatives of the group that elected them and feel obligated to represent that group's interests, regardless of whether the furtherance of those interests would benefit all stockholders

* This number does not reflect the two-for-one Common Stock split, effected in the form of a 100% stock dividend, paid on November 24, 1993. The indicated percentage of shares is accurate.

generally. This would tend to promote adherence to narrow interests rather than those of stockholders at large, whereas the election of directors by plurality vote is designed to produce a board of directors that views its accountability as being to stockholders generally. Cumulative voting would also create a risk of promoting factionalism among members of the Board of Directors and may, therefore, undermine their ability to work together effectively. Accordingly, the Board of Directors regards the proposed change as not only serving no useful purpose but as being contrary to the best interests of all ML & Co. stockholders.

For the reasons stated above, THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST the adoption of this proposal.

EXECUTIVE COMPENSATION

Compensation Committee Report

EXECUTIVE COMPENSATION POLICIES

ML & Co. is engaged in a highly competitive industry. As a consequence, ML & Co. views its ability to attract, retain and motivate qualified executives as the cornerstone of its future success. To accomplish these objectives, ML & Co. believes that executive compensation programs must be highly variable and structured to ensure that the financial interests of executives and ML & Co.'s stockholders are aligned.

For these reasons, both the annual cash incentive award (bonus) and the equity-based awards made to executives vary directly with changes in ML & Co.'s financial results and the individual performance of the executive. Maximum awards are determined for executives based on a formula, and vary up and down with changes in ML & Co.'s net income and return on equity. These maximum awards may then be reduced by the MDCC based on other considerations including productivity, expense and risk control, product innovation, quality of client service, management development, and strategic planning. Additionally, the MDCC considers the extent to which individuals take a leadership role in promoting ML & Co.'s principles of Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity.

OVERVIEW AND PROCESS

The MDCC is responsible for administering compensation for all executive officers. The MDCC consists of five directors who have never been employees of ML & Co. and who are not eligible to participate in any of the compensation programs or plans that the MDCC administers. It is the responsibility of the MDCC, on behalf of the Board of Directors, to oversee executive compensation programs, policies, and practices, which include base salary, annual bonus compensation, and long-term equity-based incentive compensation, as well as retirement, health and welfare programs, and other similar programs of ML & Co.

Each year the MDCC conducts a full review of ML & Co.'s executive compensation programs to ensure that such programs are aligned with ML & Co.'s long-term strategic and financial goals, annual financial plans and other short-term objectives. In addition, the MDCC reviews the impact of changes in laws and regulations on the compensation of ML & Co.'s executive officers. The MDCC has access to advice and counsel from independent third parties concerning matters such as historical data on CEO compensation levels within the securities industry which it uses to assess its overall methodology for determining compensation. The MDCC also reviews elements of executive management compensation with the Board of Directors, which has specific responsibility to approve the compensation of executive management.

Base Salaries

Executive officer salaries are typically reviewed every three to four years based on factors determined by the MDCC at the time of review. Executive officer salaries were not reviewed by the MDCC in 1993. For 1993, the base salaries of executive officers named in the Summary Compensation Table ranged

from 7% to 9% of their total annual cash compensation levels (base salary plus annual bonus). This relationship of salaries to total annual cash compensation is intended to increase the motivational value of the annual bonus.

Incentive Compensation

Limits to Tax Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code limits the tax deductibility of compensation in excess of $1 million paid to the individual executive officers named in the Summary Compensation Table except under certain circumstances. To satisfy Section 162(m), the MDCC has adopted, and ML & Co.'s Board of Directors is recommending that stockholders approve, performance goals and eligibility requirements contained in the Cash Plan that must be met for the payment of annual bonuses to the executive officers named each year in the Summary Compensation Table, and contained in resolutions adopted by the MDCC to govern the annual grant value of Restricted Shares and Restricted Units to executive officers under LTIC. While the performance goals contained in the Cash Plan and the performance goals governing grants of Restricted Shares and Units (together referred to as the "performance goals"), if approved by stockholders, will be initially applicable to compensation amounts that will be paid or granted in 1995 for the 1994 performance year, the MDCC decided to determine compensation amounts for all executive officers consistent with this approach for the 1993 performance year (the performance goals are discussed in more detail under the section titled "Approval of Performance Goals Governing, and Eligibility Requirements for, Certain Annual Bonuses and Grants of Restricted Shares and Units" on page 9 of this Proxy Statement).

The performance goals provide an objective, quantifiable, performance-based formula for determining maximum annual bonuses for each of the named executive officers and Restricted Share and Restricted Unit grants for executive officers with the title "Executive Vice President" or above. This formula links changes in annual bonuses and long-term incentive compensation directly to changes in ML & Co.'s Net Income and ML & Co.'s ROE. The MDCC retains the discretion to reduce the formula-determined amounts based on its evaluation of other factors. These factors, which are listed under the section titled "Executive Compensation Policies," are considered collectively by the MDCC and are not weighted in any particular order of importance. Because this process determines compensation levels based on ML & Co.'s and the individual's performance, compensation is not targeted to specific competitive levels.

ML & Co.'s Net Income and ROE were selected as the performance measures and are equally weighted in the formula because in combination they provide an incentive for executives to work towards both growth in profits and a high return on stockholders' equity. These same performance measures have generally been used by the MDCC over the past several years to determine the funds available for executive officer annual bonuses and to determine bonus awards throughout ML & Co.

Annual Bonus. ML & Co.'s annual bonus provides a direct incentive for executive officers to improve the financial performance of ML & Co. The MDCC determined 1993 performance year annual bonuses for each executive officer consistent with the performance goal formula contained in the Cash Plan. Accordingly, the CEO's maximum annual bonus amount for 1993 was determined by adjusting his 1992 bonus by the average percentage change in ML & Co.'s net income and return on equity from 1992 to

1993. The 1992 bonus level was used in this calculation for the CEO because the MDCC determined, with reference solely to the 1992 fiscal year, that the CEO's 1992 bonus amount was appropriate based on ML & Co.'s 1992 financial results. Maximum annual 1993 bonus amounts for executive officers (other than the CEO) were established at 70% of the CEO's maximum 1993 bonus amount. This percentage reflects the relative responsibility and accountability of these individuals in relation to that of the CEO. The MDCC retained the discretion to reduce these maximum annual bonus amounts based on the factors listed under the section titled "Executive Compensation Policies." The executive officers named in the Summary Compensation Table received from 79% to 98% of their formula-determined maximum bonuses for the 1993 performance year.

Long-Term Incentive Compensation. Equity-based incentive awards are a fundamental component of the total compensation awarded each year to members of executive management. These awards, which include Restricted Shares, Restricted Units, and Stock Options, align executive and stockholder financial interests and promote long-term strategic thinking.

Restricted Shares and Restricted Units provide immediate proprietary interest and reinforce a long-term orientation in decision making since they are restricted from being sold, transferred, or assigned until the end of the vesting period of four years; however, they may vest earlier if ML & Co. achieves certain cumulative return on equity goals (see footnote 2 to the Summary Compensation Table on page 19 of this Proxy Statement). Restricted Shares are shares of Common Stock that convey to their holder all the rights of a stockholder except for the restrictions described in the preceding sentence. Restricted Units are similar to Restricted Shares but are payable in cash at the end of the vesting period and do not convey voting rights to their holders as Restricted Shares do (throughout the rest of this report, Restricted Shares and Restricted Units are referred to as "Restricted Shares/Units"). Stock Options directly align the financial interests of executives with those of stockholders by rewarding executives only if, and to the extent that, the price of Common Stock appreciates in the future. Stock Options have a term of ten years and become exercisable in 25% increments each year over a four-year period. Historical grant amounts are not a consideration in deciding the appropriate equity-based award for a given performance year.

The January 1994 grants of Restricted Shares/Units for the 1993 performance year to executive officers with the title of Executive Vice President or above were based on a formula that is identical to the performance goal formula used to determine the annual bonuses for the 1993 performance year. That is, the maximum dollar value of the CEO's Restricted Share/Unit grant for the 1993 performance year was determined by adjusting the dollar value of his grant for the 1992 performance year by the average percentage increase in net income and return on equity from 1992 to 1993. The maximum dollar value of grants of Restricted Shares/Units for executive officers (other than the CEO) were established at 70% of the CEO's maximum amount. As with the Cash Plan, the MDCC has the discretion to reduce the maximum Restricted Share/Unit awards yielded by the formula based on the factors listed under the section titled "Executive Compensation Policies." The MDCC determined that the Restricted Share/Unit grants made in January 1994 may vest at the end of the 1995 or 1996 fiscal years upon the achievement by ML & Co. of a cumulative return on equity of 60%.

The MDCC increased the dollar value of the Stock Option grants to each of the executive officers for the 1993 performance year by the same percentages as it increased the actual dollar value of the Restricted Share/Unit grants to these executive officers. The number of Stock Option shares awarded

was calculated by dividing the dollar value of the award by the average fair market value of one share of ML & Co. Common Stock over the twenty business days preceding January 17, 1994 (the date the MDCC met to review executive option grants) and multiplying the result by four. The multiple of four options to one share/unit was selected because the Black-Scholes value of a ML & Co. employee Stock Option, taking into account the illiquidity of employee stock options, has over time averaged approximately 25% of the value of a share of Common Stock.

Executive officers are also eligible to participate in broad-based plans offered generally to ML & Co. employees.

Approval Process

Consistent with the executive compensation policies discussed above, the MDCC assesses the performance of the CEO and of all other executive officers, and recommends the annual bonuses of ML & Co.'s CEO, Vice Chairman, and Executive Vice Presidents to the Board of Directors for approval. Awards of Restricted Shares/Units and Stock Options to executives are determined by the MDCC in order to preserve the benefits of Rule 16b-3 promulgated under the Securities Exchange Act of 1934 for the employee stock plans pursuant to which such securities are awarded.

COMPENSATION OF THE CHIEF EXECUTIVE OFFICER FOR 1993 PERFORMANCE

Annual Bonus. The 1993 performance year annual bonus for the CEO was determined consistent with the provisions of the performance goals contained in the Cash Plan referred to above.

ML & Co.'s net income applicable to common stockholders (before the cumulative effect of a change in accounting principle) in 1993 was $1,388,978,000, which represents a 46.8% increase over $946,066,000 in 1992. ML & Co.'s return on equity in 1993 was 27.8%, which represents a 20.3% increase over 1992's return on equity of 23.1%. The average change in these performance measures, rounded to the nearest whole percentage point, is 34% ((46.8% + 20.3%) ÷ 2). The CEO's 1992 annual bonus of $4,700,000 was therefore increased by the 34% average change in the performance measures to produce a 1993 formula cash incentive compensation award of $6,298,000. In recognition of Mr. Tully's role in connection with ML & Co.'s record financial results for 1993 and his leadership in promoting ML & Co.'s principles of Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity, the MDCC deemed it appropriate to award Mr. Tully $6,200,000, essentially the full amount yielded by the formula. Mr. Tully's bonus level for 1992 was used in this calculation because the MDCC determined, with reference solely to the 1992 fiscal year, that such amount was appropriate based on ML & Co.'s 1992 financial results.

Consistent with its policy of reviewing base salaries every three to four years, the MDCC did not review Mr. Tully's base salary in 1993. Mr. Tully's base salary has not been increased since January 1, 1992, when it was set at its current level of $500,000.

Long-Term Incentive Compensation. The value of Mr. Tully's Restricted Share/Unit grant for 1993 performance was determined consistent with the provisions of the performance goals adopted by the MDCC, as described above.

Applying the 34% average increase in net income and return on equity to the grant value of Mr. Tully's 1992 Restricted Share/Unit grant ($1,100,000) resulted in a maximum Restricted Share/Unit grant for the 1993 performance year of $1,474,000. Again, in recognition of ML & Co.'s record financial results

and the other factors discussed above, the MDCC deemed it appropriate to award Mr. Tully Restricted Shares/Units with a grant value of $1,450,000. The number of Restricted Shares/Units awarded was calculated by dividing the dollar value of the award ($1,450,000) by the average fair market value of a share of Common Stock over the twenty business days preceding January 17, 1994, the date the MDCC met to review executive stock awards ($43.31). Applying the same 34% factor to the CEO's 1992 stock option grant value of $1,100,000 produced, similarly, a 1993 performance year grant value of $1,450,000 after rounding by the MDCC. The number of Stock Options awarded was calculated by dividing the dollar value of the Stock Option award ($1,450,000) by the same price of Common Stock used to determine the Restricted Share/Unit grants, and multiplying the result by four. The multiple of four options to one share/unit was selected because the Black-Scholes value of a ML & Co. employee Stock Option, taking into account the illiquidity of employee stock options, has over time averaged approximately 25% of the value of a share of Common Stock.

The ultimate future value to be realized by the CEO for this long-term award of Restricted Shares/Units and Stock Options is dependent on the future price of the Common Stock and on dividends.

Summary

The CEO's compensation for performance in 1993, valued when it was approved in January 1994 using the methodology explained above, consisted of:

Salary	Annual Bonus	Restricted Shares/Units*	Stock Options*	Total**
$500,000	$6,200,000	$1,450,000	$1,450,000	$9,600,000

*The value of these awards is based on the average fair market value of a share of Common Stock over the twenty business days preceding January 17, 1994, the date the MDCC met to review these awards ($43.31). These amounts differ from the amounts shown in the Summary Compensation Table under the column headed "Restricted Stock Awards" and from the amounts shown in the table entitled "Option Grants in Last Fiscal Year" under the column headed "Grant Date Present Value" because those amounts are based on the closing price, and on the average of the high and low prices, respectively, of Common Stock on the actual grant date.

**Does not include: grants made in January 1993 for 1992 performance, or dividend equivalents paid in 1993 for Restricted Shares/Units granted in prior years, or the value realized or unrealized with respect to prior years' grants of Restricted Shares/Units or Stock Options, or amounts in the Summary Compensation Table under the column entitled "All Other Compensation."

Management Development and Compensation Committee

JILL K. CONWAY, CHAIR
WILLIAM O. BOURKE
EARLE H. HARBISON, JR.
JOHN J. PHELAN, JR.
WILLIAM L. WEISS

* * *

Compensation Tables and Other Information

The following tables set forth information with respect to the Chief Executive Officer and the four most highly compensated executive officers of ML & Co. as to whom the total annual salary and bonus for the fiscal year ended December 31, 1993 exceeded $100,000.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation: Salary	Annual Compensation: Bonus	Long-Term Compensation: Awards(1): Restricted Stock Awards (2)(3)(4)	Long-Term Compensation: Awards(1): Securities Underlying Options	Long-Term Compensation: Payouts: Long-Term Incentive Plan Payouts	All Other Compensation
Daniel P. Tully	1993	$500,000	$6,200,000	$1,468,935	133,920	0	$161,342(6)
Chairman of the Board and	1992	500,000	4,700,000	1,234,989	144,500	0	90,473
CEO	1991	450,000	3,375,000	853,025	119,200	$3,069,331(5)	—
Herbert M. Allison, Jr.	1993	300,000	4,145,000	759,783	69,270	0	31,871(6)
Executive Vice President	1992	300,000	3,000,000	673,631	78,820	0	27,161
	1991	275,000	2,225,000	500,938	70,000	405,000(5)	—
David H. Komansky	1993	300,000	4,145,000	759,783	69,270	0	36,390(6)
Executive Vice President	1992	300,000	3,150,000	729,766	85,380	0	25,493
	1991	225,000	2,275,000	500,938	70,000	192,375(5)	—
John L. Steffens	1993	400,000	4,045,000	759,783	69,270	0	160,779(6)
Executive Vice President	1992	400,000	3,100,000	729,766	85,380	0	90,471
	1991	400,000	2,750,000	500,938	70,000	1,943,644(5)	—
Stephen L. Hammerman	1993	350,000	3,500,000	506,493	46,180	0	23,315(6)
Vice Chairman of the Board and	1992	350,000	2,400,000	617,495	72,240	0	22,668
General Counsel	1991	350,000	1,900,000	500,938	70,000	1,606,144(5)	—

(1) Awards were made in January or February of the succeeding fiscal year for performance in the year indicated.

(2) Amounts shown are for awards granted in February 1994 for performance in 1993, in February 1993 for performance in 1992, and in February 1992 for performance in 1991. The February 1994 awards were of Restricted Units; all other awards were split equally between Restricted Shares and Restricted Units. All awards have been valued for this table using closing prices of Common Stock on the Consolidated Transaction Reporting System on the dates of grant of such awards; the closing price on February 1, 1994, the date of the grant for performance in 1993, was $43.875. Such shares and units generally have four year vesting periods, but can vest earlier upon the achievement of specific cumulative after-tax return on equity ("Cumulative ROE") goals. Specifically, units granted in February 1994 may vest at the end of the 1995 or 1996 fiscal year upon the achievement of a Cumulative ROE of 60%; shares and units granted in February 1993 may vest at the end of the 1994 or the 1995 fiscal year upon the achievement of a Cumulative ROE of 45%. Shares and units granted in 1992 vested at the end of the 1993 fiscal year based on the achievement of a Cumulative ROE of 40%.

(3) Dividends are paid on unvested Restricted Shares and dividend equivalents are paid on unvested Restricted Units. Such dividends and dividend equivalents are equal in amount to the dividends paid on shares of Common Stock.

(4) The number and value of Restricted Shares and Restricted Units held by executive officers named in the table as of December 31, 1993 are as follows: Mr. Tully (18,062 shares and 18,062 units—$1,517,208); Mr. Allison (9,852 shares and 9,852 units—$827,568); Mr. Komansky (10,674 shares and 10,672 units—$896,532); Mr. Steffens (10,674 shares and 10,672 units—$896,532); and Mr. Hammerman (9,032 shares and 9,030 units—$758,604). These amounts do not include Restricted Units awarded in 1994 for performance in 1993.

(5) Amounts shown consist of: (i) the value of Performance Shares paid out in 1992 based on the attainment of performance goals for the fiscal years 1988 through 1991, and (ii) cash payments, under ML & Co.'s now-expired ROE Incentive Compensation Plan, made in 1992 based on the return on equity achieved by ML & Co. in 1991.

(6) Amounts shown for 1993 consist of the following: (i) contributions made in 1993 by ML & Co. to accounts of employees under the 401(k) Savings & Investment Plan—Mr. Allison ($1,500), Mr. Komansky ($1,500), Mr. Steffens ($1,500), and Mr. Hammerman ($1,500); (ii) allocations made in 1993 by ML & Co. to accounts of employees under the defined contribution retirement program (including allocations and cash payments made because of limitations imposed by the Internal Revenue Code)—Mr. Tully ($25,942), Mr. Allison ($21,815), Mr. Komansky ($21,815), Mr. Steffens ($23,879), and Mr. Hammerman ($21,815); and (iii) distributions received in 1993 on investments in ML & Co.-sponsored employee partnerships—Mr. Tully ($135,400), Mr. Allison ($8,556), Mr. Komansky ($13,075), and Mr. Steffens ($135,400).

Option Grants in Last Fiscal Year

Name	Fiscal Year(1)	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise Price ($ per Share)	Expiration Date(2)	Grant Date Present Value(3)
Daniel P. Tully	1993	133,920	3.0%	$40.625	1/26/2004	$1,578,917
Herbert M. Allison, Jr.	1993	69,270	1.5%	$40.625	1/26/2004	816,693
David H. Komansky	1993	69,270	1.5%	$40.625	1/26/2004	816,693
John L. Steffens	1993	69,270	1.5%	$40.625	1/26/2004	816,693
Stephen L. Hammerman	1993	46,180	1.0%	$40.625	1/26/2004	544,462

(1) Reflects awards made in January 1994 for performance in 1993. Does not include awards made in January 1993 for performance in 1992; these awards were reflected in ML & Co.'s 1993 Proxy Statement.

(2) All options are exercisable as follows: 25% after one year, 50% after two years, 75% after three years, and 100% after four years.

(3) Valued using a modified Black-Scholes option pricing model. The exercise price of each option ($40.625) is equal to the average of the high and low prices on the Consolidated Transaction Reporting System of a share of Common Stock on January 26, 1994, the date of grant. The assumptions used for the variables in the model were: 27% volatility (which is the volatility of the Common Stock for the 36 months preceding grant); a 6.03% risk-free rate of return (which is the yield as of January 26, 1994 (the date of grant) on a U.S. Strip Treasury zero-coupon bond expiring in February 2004); a 2% dividend yield (which was the dividend yield on the date of grant); and a 10-year option term (which is the term of the option when granted). A discount of 25% was applied to the option value yielded by the model to reflect the non-transferability of employee options. The actual gain executives will realize on the options will depend on the future price of the Common Stock and cannot be accurately forecast by application of an option pricing model.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Daniel P. Tully	0	$0	899,800	613,900	$26,360,969	$14,091,625
Herbert M. Allison, Jr.	0	0	312,500	256,320	9,029,453	5,173,698
David H. Komansky	0	0	217,500	237,880	6,191,641	4,463,346
John L. Steffens	0	0	457,500	277,880	13,132,891	5,685,846
Stephen L. Hammerman	0	0	352,500	249,740	10,120,703	5,119,824

(1) This valuation represents the difference between $42.00, the closing price of the Common Stock on December 31, 1993 on the Consolidated Transaction Reporting System, and the exercise prices of these options.

Pension Plan Annuity

In 1988, the defined benefit Pension Plan of ML & Co. was terminated, and a group annuity contract to pay the Pension Plan benefits to the vested participants was purchased from Metropolitan Life Insurance Company with a portion of the terminated Pension Plan trust assets. This annuity is payable at normal retirement (generally age 65) or at an early retirement age in a reduced amount. ML & Co. participates in the actuarial experience and investment performance of these annuity assets under an agreement with Metropolitan Life Insurance Company.

Upon retirement, the executive officers named in the Summary Compensation Table will be eligible to receive an annuity. Those retiring at age 65 with at least 10 years of Pension Plan participation will receive up to the statutory maximum annual annuity payments applicable to the year in which the annuity payments are made, which, during 1994, are $118,800 (if born before 1938), $110,880 (if born between 1938 and 1954), and $102,960 (if born after 1954). These amounts will be adjusted annually by the Internal Revenue Service for increases in the cost of living. The compounded annual growth rate of these cost of living increases has been 4.05% since 1988, the year indexing began. In future years, after adjustments for cost of living increases, these annuities, if payable as straight life annuities, will not exceed the following amounts for the following executive officers: Daniel P. Tully ($316,168) subject to the statutory maximum ($118,800 in 1994); John L. Steffens ($227,963) subject to the statutory maximum ($110,880 in 1994); David H. Komansky ($103,655); Stephen L. Hammerman ($100,466); and Herbert M. Allison, Jr. ($81,543); these annuity amounts reflect an offset for estimated social security benefits in accordance with the provisions of the terminated Pension Plan.

Annuity Agreement

ML & Co. entered into an annuity agreement with Mr. Tully, effective July 24, 1991, as amended April 30, 1992, to provide for supplemental defined benefit annuity payments to him and his surviving spouse. Estimated amounts, when combined with retirement benefits from other sources described in the paragraph below, payable to Mr. Tully as a straight life annuity upon retirement at age 60 or thereafter, based on his "Highest Consecutive 5-Year Average Earnings" and "Years of Total Employment," can be calculated using the following table:

Highest Consecutive 5-Year Average Earnings	Years of Total Employment		
	35	40	45
$2,700,000	$1,181,250	$1,350,000	$1,500,000
2,800,000	1,225,000	1,400,000	1,500,000
2,900,000	1,268,750	1,450,000	1,500,000
3,000,000	1,312,500	1,500,000	1,500,000
3,100,000	1,356,250	1,500,000	1,500,000
3,200,000	1,400,000	1,500,000	1,500,000
3,300,000	1,443,750	1,500,000	1,500,000
3,400,000	1,487,500	1,500,000	1,500,000
3,500,000	1,500,000	1,500,000	1,500,000

The annuity is payable if Mr. Tully retires or dies while an executive officer of ML & Co. The annual amount of his annuity will be equal to 1.25% of his highest consecutive 5-year average earnings (i.e., total cash compensation) multiplied by years of total employment up to age 65, as reduced by the Pension Plan annuity and the combined annuity value of his account balances attributable to ML & Co. contributions to the Merrill Lynch & Co., Inc. Savings & Investment Plan (the "Savings Plan") and the Retirement Accumulation Plan, and to the allocations under the ESOP (the latter two plans, collectively, the "Retirement Program") and as further reduced by 50% of the annual social security retirement benefit amount he would receive upon retirement at age 65. As of December 31, 1993, Mr. Tully had highest consecutive 5-year average earnings of $2,775,520 and approximately 38 years of total employment. The amount of his annuity, however, together with the combined annuity value described above, cannot exceed $1,500,000 if payable as a straight life annuity, or $1,270,000 if payable as a 50% or 100% joint and survivor life annuity. The payment will be made monthly in the form of a life annuity or, subject to reductions, a joint and survivor life annuity, or 10-year certain and life annuity. The survivor benefits, if applicable, are payable only to a spousal beneficiary.

Severance Agreements

ML & Co. has agreements with 39 present members of executive and senior management, including Messrs. Tully, Allison, Komansky, Steffens and Hammerman. These agreements provide for payments and other benefits if there is a Change in Control (generally as defined below) of ML & Co. and the employee's employment is subsequently terminated by ML & Co. or its successor (other than for cause, disability, retirement, or death) or by the employee for certain defined reasons such as a change in responsibilities or a reduction in salary or benefits. The term of each agreement does not exceed 3 years, which term is automatically extended each year for an additional year until notice to the contrary is given to the employee. Under each agreement, the employee will receive a lump sum payment equal to 2.99 times the employee's average annual compensation for the 5 years immediately preceding the year of the termination of employment. The employee shall also receive (i) a lump sum payment equal to the after-tax value of life, disability, accident, and health insurance benefits for 24 months after termination of employment, (ii) a lump sum payment equal to the retirement contribution, and an amount sufficient to cover the income taxes payable thereon, that the employee would have been eligible to receive from ML & Co. under the terms of the Retirement Program and any applicable ML & Co. contributions to the Savings Plan, or any successor program or plan that may be in effect at the time of the Change in Control, determined as if the employee were fully vested thereunder and had continued (after the date of termination) to be employed for an additional 24 months at the employee's highest annual rate of compensation during the 12 months immediately preceding the date of termination for purposes of determining the basic contributions and any applicable supplemental contributions; and (iii) any legal expenses and fees incurred as a result of his termination of employment. A "Change in Control" of ML & Co. generally includes: (i) the acquisition by any person of the beneficial ownership of securities representing 30% or more of the combined voting power of ML & Co.'s then outstanding voting securities; (ii) a change in the composition of the Board of Directors such that, within a period of 2 consecutive years, individuals who at the beginning of such 2-year period constituted the Board of Directors and any new directors elected or nominated by at least three quarters of the directors who were either directors at the beginning of the 2-year period or similarly elected, cease for any reason to constitute at least a majority of the Board of Directors; or (iii) the entering into of an agreement, the

consummation of which would result in a Change in Control. Any payments received under these agreements would be in addition to amounts received under the Long-Term Incentive Compensation Plan and the Equity Capital Accumulation Plan, which, in the event of a Change in Control, provide for early vesting or payment.

Compensation of Directors

ML & Co. directors who are not full-time employees of ML & Co. or an affiliated corporation receive monthly cash payments at a rate of $35,000 per year in base compensation and receive transportation to, or reasonable travel expenses incurred in connection with attending, meetings. In addition, non-employee directors receive $15,000 per year for service as members of, or $25,000 per year for chairing, the Audit and Finance Committee and the Management Development and Compensation Committee. The director who chairs the Nominating Committee receives $6,000 per year. Other members of that committee receive no additional fee. Pursuant to the Merrill Lynch & Co., Inc. Non-Employee Directors' Equity Plan, each person who was a non-employee director on November 4, 1992 was granted, on that date, restricted stock with a grant value of $50,000 (or a lesser amount to the extent that such non-employee director was scheduled to retire before the fifth Annual Meeting of Stockholders subsequent to such grant). Each person who subsequently became a non-employee director received a similar grant upon commencement of service, and each new non-employee director will receive a similar grant upon commencement of service. Thereafter, at the beginning of the month next following the date of the fifth Annual Meeting following the date of each such prior grant, an additional similar grant will be made to each non-employee director. All such restricted stock vests, and becomes transferable or able to be encumbered, in the same proportion on the date of each of the five Annual Meetings (or lesser number of Annual Meetings if the director's scheduled date of retirement is earlier) following its grant; in all other respects, holders of this restricted stock have the rights of holders of Common Stock, including the right to receive dividends. Each non-employee director who has served for 5 years or has reached age 65, and who thereafter ceases to serve for any reason other than removal for cause, is eligible to receive a pension benefit. The beneficiary(ies) or estate of each non-employee director is entitled to receive a death benefit in the event of such director's death during his or her term. Both such benefits are based upon the annual base compensation, at the time of the director's cessation of service or death, as the case may be, plus $10,000, and the director's age and length of service. Although the amount and method of payment of each such benefit cannot be determined until the time of entitlement, it will not, on an annualized basis, exceed an amount equal to the sum of the annual base compensation for non-employee directors at the time of the director's cessation of service or death, as the case may be, plus $10,000. ML & Co. also offers health, life, and business travel insurance benefits to non-employee directors.

Certain Transactions

From time to time since the beginning of the 1993 fiscal year, certain directors and executive officers of ML & Co. and associates of such persons were indebted to subsidiaries of ML & Co., as customers, in connection with margin account loans, mortgage loans, revolving lines of credit and other extensions of credit by ML & Co.'s subsidiaries. These transactions were in the ordinary course of business; they were substantially on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, except that for some credit products interest rates

charged were the same as the lowest interest rates charged other persons or were more favorable for ML & Co. employees and directors than for other persons; and they did not involve more than the normal risk of collectibility or present other unfavorable features. In addition, directors, officers, and employees of ML & Co. are entitled to receive certain discounts or waivers of fees or commissions for products and services offered by subsidiaries of ML & Co.

From time to time since the beginning of the 1993 fiscal year, ML & Co. and certain of its subsidiaries have engaged in transactions in the ordinary course of business with State Street and the Equitable Companies and their respective parents and subsidiaries, which are the holders of more than 5% of the outstanding shares of Common Stock; such transactions were on substantially the same terms as those prevailing at the time for comparable transactions with others.

From time to time since the beginning of the 1993 fiscal year, ML & Co., through certain of its subsidiaries, in the ordinary course of business has performed investment banking, financial advisory, and other services for certain corporations with which its directors are affiliated.

From time to time since the beginning of the 1993 fiscal year, legal services were performed by the law firm of Gibson, Dunn & Crutcher (a) for mutual funds advised by affiliates of ML & Co., (b) in connection with investment banking transactions, (c) for companies (i) that are majority owned by limited partnerships in which subsidiaries of ML & Co. serve as general partners on behalf of third party investors and (ii) in which ML & Co. has a co-investment and (d) for corporate activities of ML & Co. Aulana L. Peters, a nominee for election as a director, is a partner of this law firm.

A member of the Board of Directors, William O. Bourke, filed a Form 5 with the SEC, reporting an exempt acquisition under Rule 16a-6 of 200 shares of Common Stock by his wife (as to which he disclaims beneficial ownership); the form was filed 18 days late.

Stockholders Charles Miller and Kenneth Steiner commenced in October 1991 separate derivative actions, now consolidated in New York State Supreme Court (Index No. 29885/91 Sup. Ct.). The plaintiffs assert claims of breach of fiduciary duties in connection with a series of year-end securities transactions between subsidiaries of ML & Co. and Guarantee Security Life Insurance Company ("GSLIC") in 1984-1988 against all present directors of ML & Co. who were directors at the time of these trades, and other claims against Transmark U.S.A. Inc., GSLIC's parent company ("Transmark") and one of Transmark's principals. The damages sought in this action are unspecified. Motions to dismiss on various grounds were denied, subject to possible further appellate review. However, the court has stayed the action for all purposes pending a resolution of related GSLIC litigation now pending in Florida.

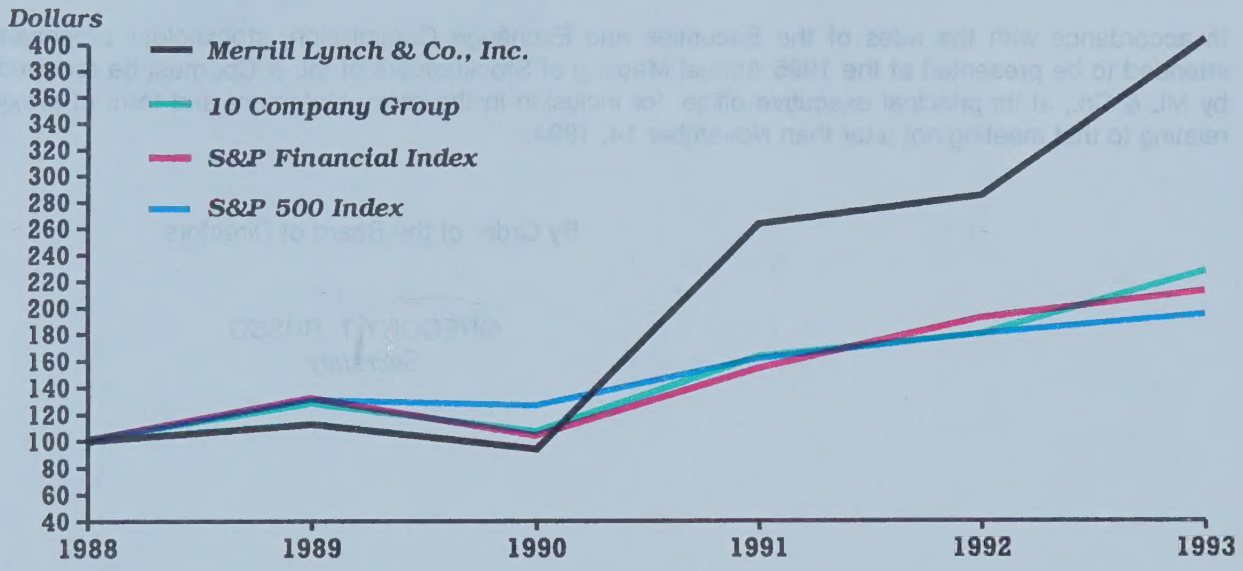
Compensation Committee Interlocks and Insider Participation: Member's Transaction with the Corporation

The members of the MDCC are Jill K. Conway (Chair), William O. Bourke, Earle H. Harbison, Jr., John J. Phelan, Jr., and William L. Weiss. None of these individuals is an insider, and no "compensation committee interlocks" existed during the last fiscal year. A NYSE membership owned by Mr. Phelan

was leased by him to an employee of a NYSE specialist firm that is a subsidiary of ML & Co. The subsidiary is entitled to use the membership and is responsible for making lease payments. This lease commenced in May, 1991 at a rate of $66,000 per year, and was renewed in May, 1992 and 1993 at rates of $89,000 and $93,100 per year, respectively, the then prevailing lease rates; the range of rates for new NYSE membership leases, as reported by the NYSE, was $48,000 to $84,000 during 1991, $70,000 to $100,000 during 1992, and $80,000 to $132,000 during 1993. To provide for a continuation of lease payments at fair market value, the lease specifies that it is renewable annually at the then prevailing lease rate.

PERFORMANCE GRAPH

The following performance graph compares the performance of ML & Co.'s Common Stock for the last 5 fiscal years of ML & Co. to that of the S&P 500 Index, the S&P Financial Index, and an index based on the common stock of the following 10 companies: American Express Company, Bankers Trust New York Corporation, The Bear Stearns Companies Inc., A.G. Edwards, Inc., J.P. Morgan & Co. Incorporated, Morgan Stanley Group Inc., Paine Webber Group Inc., Salomon Inc, The Charles Schwab Corporation and The Travelers Inc. (the successor to Primerica Corporation). The graph assumes that the value of the investment in Common Stock and each index was $100 at December 30, 1988 and that all dividends were re-invested. Stock price performances shown on the graph are not necessarily indicative of future price performances.



	1988	1989	1990	1991	1992	1993
Merrill Lynch & Co., Inc.	$100.00	$112.95	$ 94.22	$264.18	$285.93	$404.53
10 Company Group	100.00	127.45	106.61	162.80	179.80	227.56
S&P Financial Index	100.00	132.11	103.51	154.10	191.82	212.54
S&P 500 Index	100.00	131.69	127.01	162.05	180.61	195.60

OTHER MATTERS

The Board of Directors knows of no business that will be presented for consideration at the Annual Meeting other than those items stated in the Notice of Annual Meeting of Stockholders. Should any other matters properly come before the Annual Meeting or any adjournment thereof, shares represented by the enclosed form of proxy, if signed and returned, will be voted in accordance with the judgment of the person or persons voting the proxies.

ML & Co. will furnish any stockholder a copy of its 1993 Form 10-K Annual Report (including financial statements and financial statement schedules but excluding other exhibits), without charge, upon request addressed to Gregory T. Russo, Secretary, Merrill Lynch & Co., Inc., 12th Floor, 100 Church Street, New York, New York 10080-6512.

STOCKHOLDER PROPOSALS FOR THE 1995 ANNUAL MEETING

In accordance with the rules of the Securities and Exchange Commission, stockholder proposals intended to be presented at the 1995 Annual Meeting of Stockholders of ML & Co. must be received by ML & Co., at its principal executive office, for inclusion in the proxy statement and form of proxy relating to that meeting not later than November 14, 1994.

By Order of the Board of Directors

GREGORY T. RUSSO
Secretary



Merrill Lynch

Merrill Lynch & Co., Inc.
World Financial Center
North Tower
New York, NY 10281